ACCOUNTING

GENERAL COURSE

Lesson 16

Foreign Currency and Exchange

ANY concern that imports goods will receive invoices with the amounts expressed in foreign currency and, since the accounts will naturally be entered up in domestic currency for inland transactions, and for those with persons in countries using the same currency, it becomes necessary to arrange the books of original entry and Ledgers affected by such transactions in such a way that the conversion is recorded and the account balances appear in domestic currency.

Some features to be kept in mind are—

1. Since the Purchase Book is affected a set of columns will be required for the foreign currency in addition to the usual money columns, or it may be found more convenient to keep a special Purchase Book if there are many foreign transactions.

2. The Ledger account affected must correspond with the book of original entry and contain columns on each side for both foreign and domestic currency. Should a special Purchase Book be kept, it would be in order to open a foreign Ledger for, say, Accounts Payable Abroad, or Accounts Payable in Great Britain, etc.

3. Special columns may be required in the Cash Book and in the Bills Payable Book so that the amount in foreign currency covered by the transaction may not be lost sight of when remittances are made or drafts accepted.

Different methods may be adopted according to the desire of the business management, but one of these will be given in outline and illustrated.

1. Calculate the exchange at a standard rate—say $4.85 when exchange is low, or $4.90 or more to the £ when sterling exchange is at a premium. Some take $5.00 for all such conversions. Par may be taken.

2. Enter in the Purchase Book, placing £ s. d. in proper columns, and the equivalent in Canadian currency, as calculated, in the usual columns.

3. Post both sets of columns to the credit of the Ledger account affected.

4. When a remittance is made, it will be at the rate for the day, which will probably differ from the rate at which the invoices were credited, and the entry in the Cash Book, posted from this to the debit of the Ledger account, will of course be at the rate actually paid.

5. Should a draft be accepted it is put through at the same rate of exchange as that adopted for invoices. When paid it will be at the rate for the day when payment is made. (See note at end.)

6. At the end of the financial period—

(*a*) Balance the Foreign Currency column, and extend the balance into the Domestic Currency columns at the rate for the day.

(*b*) Balance the Domestic Currency column by a Journal entry—

Creditor X	$————	
To Foreign Exchange		$————

if the credit side exceeds the debit, or

Foreign Exchange	$————	
To Creditor X		$————

(*c*) Bring down the balance shown in the Foreign Currency column at the rate for the day in the Foreign Currency column. This amount in dollars is used in the Trial Balance.

7. The Total of the Purchase Book is periodically debited to the Purchase account.

SPECIAL NOTES

1. Under the above method there will be a difference in the Bills Payable account due to the change in exchange rates, as recorded at first, and as paid. This will be closed off to Exchange account by Journal entry—

Bills Payable	$————	
To Foreign Exchange		$————

or the reverse, if the difference is the other way.

It may be found preferable to open a special Bills Payable Book and corresponding Ledger account for "Foreign Bills Payable." When balancing this account, at the end of a period, the balance in domestic currency (dollars) would be calculated at the rate for the day.

2. In the method taken, one rate is always used when recording the invoices, and this is usually a round amount. *Par* $4.86 2/3 *may be taken, and frequently is.* The advantage is that the rate at which the calculation is to be made is always known, and variations in the rate do not affect the work, also that a conversion table may be prepared and the conversion made without working it out each time, thus saving labour and time.

3. Under this method drafts are put through at the same rate as the invoices since the exact rate is not a matter of concern until payment is made, unless the draft is expressed at a certain rate, when of course that rate must be taken. This enables the business to use the conversion table referred to in (2).

4. The balance at the end of the period is calculated at the rate for the day, since that represents the actual liability at that date and the amount at which settlement on that date could be made.

5. If cash discounts are allowed they will be recorded in the Cash Book and from there posted to the Ledger account at the same rate as that required in making payment, since the discount means a smaller payment is accepted in settlement and, if it were not so, the same rate of exchange would have applied to the whole amount.

6. Foreign Exchange account is closed to Purchases account because we have used arbitrary rates when bringing the charges for goods into our books and the exchange account adjusts the difference between the charge as recorded and as finally determined by payment.

Note. If sterling transactions are few and not sufficient to warrant a special Ledger the sterling amount may be entered in the " particulars " column of the Cash Book.

ILLUSTRATION

In illustrating the entries required where foreign exchange is involved transactions with E. South are assumed. The standard rate used is $4.90 to £.

June 1. Received from E. South goods invoiced at £3,000 10s. 0d.
,, 25. Remitted to E. South Bill of Exchange for £1,000, exchange being at $4.80.
July 5. Accepted E. South's draft for £1,500.
,, 30. Paid E. South's draft of 5th inst. Exchange rate $4·8445.
Aug. 1. Received from E. South invoice for goods £500.
,, 6. Remitted E. South £600. A cash discount of £21 was allowed. Exchange rate $4·8665.

Books were closed on August 31. Exchange rate on that date was $4·8890.

Purchase Book P. 1

		FROM WHOM PURCHASED	PARTICULARS		STERLING £	S.	D.	DOMESTIC CURRENCY $	C
June	1	E. South		98	3000	10	0	14702	45
Aug.	1	E. South		98	500	0	0	2450	00
			Purchases Dr.	112				17152	45

Bills Payable Book P. 80

		DR. ACCOUNT OF			STERLING			DOMESTIC CURRENCY	
July	5	E. South		98	1500	0	0	7350	00
			Bills Pay Cr.	106				7350	00

Cash Paid P 64

	DEBIT		STERLING	SUNDRIES	DISCT CR	CASH	BANK
June 25	E. South	98	1000 0 0	4800 00			4800 00
July 30	Bills Pay	106	1500 0 0	7266 75			7266 75
Aug. 6	E. South	98	600 0 0				
			21 0 0	3022 10	102 20		2919 90

E. South P 98

				£	s	d						£	s	d	
June 25		CB	64	1000	0	0	4800 00	June 1		P	1	3000	10	0	14702 45
July 5		BP	80	1500	0	0	7350 00	Aug. 1		P	1	500	0	0	2450 00
Aug. 6		CB	64	621	0	0	3022 10								
Aug. 31	Balance			379	10	0	1855 38								
	For Exch.						124 97								
				3500	10	0	17152 45					3500	10	0	17152 45
								Sept. 1	Balance			379	10	0	1855 93

Bills Payable P 106

July 30		CB	64	1500	0	0	7266 75	July 6		BP	80	1500	0	0	7350 00
Aug. 31		J	1				83 25								
				1500	0	0	7350 00					1500	0	0	7350 00

Purchases P 112

Aug. 31		P	1	17152 45				Aug. 31		J	1			208 22	

Foreign Exchange

Aug. 31		J	1			208 22		Aug. 31		J				124 97	
								"	"	J				83 25	
						208 22								208 22	

Journal entries to adjust—

E. South	$124.97	
To Foreign Exchange		$124.97

to adjust the account and write off the difference between the estimated and actual charges—

Bills Payable	$83.25	
To Foreign Exchange		$83.25

to adjust the difference between the estimated and actual rate on foreign bills paid—

Foreign Exchange	$208.22	
To Purchases		$208.22

to carry the adjustment between the estimated and actual costs into Purchases account.

Correction of Errors

It should be the aim of everyone, whose work it is to make entries in books of account, to do so as free from errors as possible. Assuming, however, that errors are sometimes made, it is important that a proper method should be followed in correcting them.

You are now quite familiar with the difference between books of Original entry and those of Secondary entry. As evidence, the original records are those that are accepted. If you keep a diary in which you make note of events as they take place, and you are called on to take it to court as evidence, you would entirely destroy its value, as evidence, if you attempted to make corrections by erasing words and putting others in their place, or by rewriting the whole record in better form. The original record is required. It follows then that—

1. No erasure can be permitted in a book of original entry, neither should there be any change in the figures or words contained in the book.

2. If an error is found in a book of original entry it must be corrected in such a way as will not cover up, or entirely deface, the first entry or raise any doubt regarding it.

3. Correction of errors in books of original entry may be made by—

(*a*) Drawing lines through them and adding a notation stating where the correct entry may be found.

(*b*) Writing the word " Void " over the error and adding a notation as in (*a*).

(*c*) If the incorrect entry has been posted, the better way is to make a Journal entry, to adjust it, and add a full explanation.

(*d*) Whenever a correcting entry is made to cover (*a*) or (*b*) it should be supported by an explanation that will connect it up with the item crossed out.

(*e*) In books of secondary entry corrections may be made in any way that does not interfere with neatness. They must always conform with the original entry.

Locating Errors

On taking off a Trial Balance it may be found that the debit and credit totals do not agree, indicating that there has been an error made somewhere. It is proposed to set before you some of the methods that may be followed in finding the error.

Preparatory to commencing the work of locating an error become thoroughly seized with this fact, " It can be found." Some of the methods referred to are given below.

1. To see if the error is in the Trial Balance itself add both sides up and down.

2. Determine the exact amount of error and keep in mind throughout the search.

3. See if there are any original entry items with no folio mark to indicate that they are posted to the Ledger.

4. If this does not make any or all the change required, go over the addition of the ledger accounts in the same way and see if the footings are correct and the balances have been correctly carried into the Trial Balance. Be sure you have the correct footing for each column before passing on to another. Possibly some account, e.g. Cash, has been omitted in preparing the Trial Balance. This should be found by the above procedure.

5. Look back over the entries in the Journal and see that the Debit and Credit columns agree in each item; i.e. that there are no entries in which debit and credit sides are not the same amount.

6. Test the totals of the Purchase Book, Sales Book, and other such books of original entry that are posted to Ledger accounts, to see if they are incorrect.

7. If the difference is exactly divisible by two look for half the amount, to see if it has been posted to the wrong side in the Ledger.

8. See if, when the books were re-opened after the last Trial Balance or Balance Sheet had been taken off, any balances were not brought down below the ruling.

9. Open the Ledger and, taking the books of original entry in order, follow the posting from the beginning, noting not only whether the amount posted is exactly correct, but if each amount is posted to the proper account and to the proper side, debit or credit. Place a check mark $\surd$ as neatly as possible (use sharp pencil) against each amount in both the book of original entry and the Ledger, where found correct. Don't omit this check mark. Look out for transpositions of figures; e.g. $189.00 as $198.00. These may pass unnoticed.

10. When the work outlined in No. 9 is completed, if the error has not been found, look over the accounts and see if there are any amounts against which there is no check mark and follow this back to find out why. It may be an amount inserted in error. As an error is found the footing carried to the Trial Balance must be corrected.

11. *If the above has been accurately carried out the error should have been*

found. If not, repeat the process and you will probably find wherein you have erred in your previous work.

Should the error not be located in this way, the following, as a last resort, may be used. It should not be necessary; that is why it is given as a last resort. Make a skeleton of each Ledger account by ruling a headline and from it a line to separate debits from credits as illustrated.

Purchases	*R. Thompson*

Post the amounts from the books of original entry without dates or folio numbers (pages), to these accounts (being careful to post each amount in its proper place). When this is completed, take off a Trial Balance and compare it with that taken from the Ledger and note any differences. These differences should account for the difference in the Trial Balance taken from the Ledger. If they do not, check again the totals posted from the books of original entry to the Ledger, seeing that additions as well as postings are correct. Unless an error has been made in this process it should not be necessary to repeat it.

12. In connection with all the above you will bear in mind that if controlling accounts are kept the error should be localized; i.e. you can tell in what section of the accounts it is.

Thus, if the totals of the balances in the Accounts Payable Ledger do not agree with the Accounts Payable account balance in the General Ledger, there is an error either in posting the individual amounts to the Purchase Ledger or in adding and arriving at the totals, or in posting the totals to the Controlling account. Efforts can thus usually be confined to one section of the accounts and so reduce the work materially.

Business Terms

Explanations of a number of business terms with which you should be familiar are submitted. Other terms are explained incidentally in the lessons and some that have been explained are further discussed here for emphasis.

Every student of accounts should acquaint himself with the terms used in a business vocabulary. Words may be used in the lessons to which you are not accustomed. Refer to a good dictionary whenever or wherever you meet such. Watch the spelling of particular words: e.g. " separate " not " seperate," and " secretary " not " secetary." Watch the use of such words as " affect " and " effect " and put them in their proper places. The wrong use of words, since it " affects " the meaning conveyed, has a bad " effect."

Account Current. A detailed statement showing the conditions of a current or running account at a certain date. This may include interest charges on account balances, if any.

ACCOUNT SALES. A statement issued by a commission merchant to the firm or person for whom he has transacted business, showing sales made, expenses, charges, and net proceeds.

ACCOUNT STATED. An account showing a balance that has been agreed upon by the parties concerned. This statement may refer to a number of transactions on different dates. These are separate accounts until the balance of all together has been agreed upon, when it becomes an account stated.

ACCOMMODATION BILL. A bill of exchange to which a person has put his name either as drawer, acceptor, or endorser, without receiving any benefit from the paper. In other words, the party signing the bill, without receiving any benefit, lends his name in order to enable the other party to discount the paper. It is done purely to accommodate the other party, but until this party has discharged it the accommodating party may be held liable.

ACCRUED CHARGES. Charges or expenditure that have been incurred but are not yet paid. See the explanation re accrued wages, etc., in a former lesson.

ASSIGNEE. One to whom some property has been handed to be held in trust or realized on for distribution among creditors. The latter case refers to a debtor making an assignment.

ASSIGNOR. The person who assigns or hands property over to the assignee.

BALANCE SHEET. A statement of Assets and Liabilities prepared from accounts kept by Double Entry. If compiled otherwise than from such accounts it is a Statement of Affairs.

BILLS OF LADING. An acknowledgment of the receipt of goods for transportation issued by a carrier, such as a railway company, a steamship company, etc.

BILLS ON COLLECTION. Drafts and notes placed with a Bank to be collected when due, without being discounted.

BILLS UNDER DISCOUNT. If bills are discounted they are called Bills Under Discount since value has been received for their due amount less discount charges. Should those directly liable fail to pay, those who discount the bills become responsible to the bank for the amount.

CERTIFIED CHEQUE. A cheque that has been marked or accepted by a bank, indicating that it is good and will be paid on presentation. When certified it becomes an obligation of the bank and the maker cannot then stop payment after it has reached the payee, without the payee's consent.

CLOSING ENTRIES. The entries made to bring the nominal or working accounts together at the end of a financial period to arrive at the net profit or loss for the period and to show the disposition of same.

COLLATERAL SECURITY. Additional security; e.g. If a business borrows from a bank it may be required to pledge customers' paper to the bank as further security. Security for loans.

CONSIGNEE. One to whom goods are sent or consigned.

CONSIGNOR. The person who ships goods to another, called the consignee.

CONTINGENT LIABILITY. A liability that can be enforced only on the happening of a certain event; e.g. Paper is endorsed as accommodation. The endorser is liable if the accommodated party fails to pay, if he discounts customers' paper at the bank and they fail to pay, he is liable to the bank.

CREDIT NOTE. A memorandum in writing stating that an allowance has been made that will reduce certain charges; e.g. Allowance for overcharge or inferior quality.

CUMULATIVE PREFERRED STOCK. Preferred stock that has attached to it a provision that, should dividends not be paid on it up to the specified rate, the arrears shall be paid before any dividends are declared on the common stock. There is, however, no direct liability to pay C. P. dividends until they are declared.

CURRENT ASSETS. Those assets out of which the business expects to realize cash in its current operations; e.g. Cash, Accounts Receivable, Stock, etc.

CUM DIVIDEND. With rights to any dividends that may be declared as distinguished from Ex. dividend—without right to dividend that may be declared for the current period.

CURRENT LIABILITIES. Those liabilities that are payable during the near future; e.g. Accounts Payable, etc.

DAYS OF GRACE. Three days allowed, after a Bill of Exchange or Promissory Note is nominally due, before it is legally due.

DEFERRED CHARGES. Amounts that have been paid in advance, e.g. Insurance paid one year that is not an expenditure chargeable to Profit and Loss until the next year. The charge is thus deferred.

DRAWEE. The person on whom a bill of exchange is drawn.

DRAWER. The person who issues a draft or other order on another (the drawee) to pay money.

ESCROW. A document completely executed under seal, but delivered to a third person to be surrendered by him to the person to be benefited by it, and to take effect only when certain specified conditions are complied with and are satisfied.

ESTOPPEL. A rule of law that precludes a man from denying certain facts or conditions in consequence of his previous conduct or allegations.

FIXED ASSETS. Those by means of which business is carried on and which in the ordinary operations will not be realized in cash, e.g. Land, Buildings, Machinery.

FIXED LIABILITIES. Those liabilities that remain for an extended period and are not a charge against current assets, e.g. long term mortgage.

GROSS PROFITS. The excess of sales over cost of goods sold.

HYPOTHECATE. To pledge as collateral security, e.g. Bill of Lading or customers' drafts and notes so pledged as collateral.

INDIRECT LIABILITY. See Contingent Liability.

INVOICE. A statement, in detail, of goods bought or sold.

LEGAL TENDER. Such money as a creditor is obliged to receive in satisfaction of a debt in terms of money of the realm. In Canada legal tender consists of—

1. Canadian copper coins to the amount of 25 cents.
2. Canadian silver coins to the amount of $10.00.
3. Dominion of Canada notes to any amount.
4. Canadian, British, and United States Gold coins to any amount.

NOTE. If a contract states that payment shall be made in any particular form, that form is legal tender for that contract. If the form is not specified, then it will be as set out above.

LEASE. A contract giving possession of real property for a certain time.

LESSEE. A person to whom a lease is granted.

LESSOR. A person who grants a lease to another—the lessee.

LIEN NOTE. A promissory note with a clause included providing that the property in the article, for which the note is given, remains with the payee and does not pass to the maker until the note is fully paid; e.g. Note for payment of Piano, or Sewing-machine, or Farm Implement. Thus the maker may have possession of the property, but not the title to it.

LIQUID ASSETS. Cash, or such assets as may be readily turned into cash; such as Accounts Receivable due or shortly due.

MORTGAGEE. A person who advances money on security of a mortgage on real or personal property.

MORTGAGOR. A person who gives a mortgage on property as security for money borrowed by him.

PREFERRED STOCK. That part of the capital to which is given some preference over common stock. This usually applies to dividends and frequently to repayment on winding up.

PARTICIPATING PREFERRED STOCK. That preferred stock having a preference up to a certain rate in dividends over common, with a further provision that after common stock has received an equivalent rate, the preferred shall participate with the common in any further distribution.

POST-DATED. Bearing a date later than the true date of issue; e.g. A cheque issued on May 12, 1939, but dated May 27, 1939.

PREMIUM. An amount above face value. Thus shares or bonds having a face value of $100.00, but issued at $110.00, are issued at a premium of 10 per cent or $10.00 per hundred dollars.

PURCHASES ACCOUNT. The account to which is charged the cost of goods purchased. If a business desires to keep several lines separate it may have a number of purchases accounts in one set of books.

SALES ACCOUNT. The account at the credit of which is shown the

amount of sales. As in the case of purchases, there may be more than one sales account in a business having several departments.

SINKING FUND. A fund of cash or securities created for the purpose of having on hand, at a certain time, an amount required for a specific purpose, and which is built up by depositing in it, at regular intervals, such an amount as will, when accumulated at a certain estimated rate of interest, provide the amount required.

STOPPAGE IN TRANSIT. The right of an unpaid vendor to stop goods in transit before they pass into the control of the purchaser, who is insolvent. This right exists only if the purchaser is insolvent, the goods not having been delivered to him or his order, and they are unpaid for and in transit.

SURETY. One who guarantees the debt, default or misconduct of another. In connection with debts he is usually called the guarantor.

TRADE CREDITORS. Those to whom the business owes accounts or bills payable arising out of trading transactions as distinguished from bank loans and other liabilities.

TRADE DEBTORS. Those who owe the business on accounts or bills receivable arising out of trading transactions.

TRADE DISCOUNT. A discount allowed off the list price and which should be deducted on the invoice *so that only the net amount is charged through the books*. A manufacturer or wholesaler can thus use one list price for a long period and adjust to the actual selling price by changing the discount rate to the trade. Trade discount of 20 and 10 off is equivalent to a single discount of 28 per cent; i.e. 20 per cent off 100 and 10 per cent off 80.

TRIAL BALANCE. A statement showing, in separate columns, the debit and credit balances of the Ledger accounts, or the debit and credit footings of the accounts. The total of the two columns should agree in amount and this indicates that the posting to the Ledger has been correctly done, so far as being on the proper side is concerned.

VIA. By way of; e.g. Goods may be shipped to Sudbury via North Bay, or to Montreal via C.P.R.

VENDOR. A person on whose behalf a sale is made.

VOUCHER. Any document or writing that is proof of the payment or receipt of money or of other transactions involving money or money's worth.

WAREHOUSE RECEIPT. A receipt given by a warehouseman acknowledging the receipt of goods and that they are stored in the warehouse for the persons on whose behalf he has received them.

Statements of Percentages

When a Trading Account and a profit and Loss Account have been prepared, a statement should be arranged to show the relation of each of the various items to sales or to the cost of goods sold.

It may be assumed that in preparing these accounts the following information is obtained—

Sales	$200,000.00
Cost of Goods Sold	150,000.00
Gross Profit	50,000.00
Wages	10,000.00
Salaries	5,000.00
Taxes	500.00
Insurance	200.00
General Expense	8,000.00
Selling Expenses	10,000.00
Net Profit	16,300.00

and it is desired to show the percentage of each of the other items to sales.

Statement No. 1

Item	Amount	% to Sales
Cost of Goods Sold	$150,000 00	75
Gross Profits	50,000 00	25
Wages	10,000 00	5
Salaries	5,000 00	2.5
Tax	500 00	.25
Insurance	200 00	.10
General Expense	8,000 00	4
Selling Expense	10,000 00	5
Net Profit	16,300 00	8.15

Statement No. 2

Item	Amount	% to Sales
Cost of Goods Sold	$150,000 00	75
Wages	10,000 00	5
Salaries	5,000 00	2.5
Taxes	500 00	.25
Insurance	200 00	.10
General Expense	8,000 00	4
Selling Expense	10,000 00	5
Net Profit	16,300 00	8.15
Sales	$200,000 00	100.00%
Gross Profit	50,000 00	25%

The Gross Profit is not included in the second statement since it is exactly accounted for by the items after cost. The total acts as a check on the work. Gross Profits may be added as illustrated. A similar statement to No. 1 could be prepared in relation to cost. The second method is to be preferred.

When Cash Discounts appear on the Credit side along with the Sales, the total of the debits in the Trading and Profit and Loss account equals more than 100 per cent of Sales. This should cause no confusion as a percentage statement is prepared in order to show the percentage that each item in the Trading and Profit and Loss accounts bears to the total Sales.

EXAMINATION QUESTIONS

Lesson 16

1. State briefly how you would proceed to locate the error or errors in a set of books which the Trial Balance shows to be out of balance.

2. How would you record the following?

   Sold goods catalogued at $350.00 to John Smith, allowing him a Trade Discount of 10 per cent. Drew on him at sight. Discounted the draft in the Bank, bank charges 83 cents. The draft was dishonoured upon presentation and charged back by the Bank.

3. On January 1, 19—, A's books showed the following balance—

Accounts Payable	$ 3,827.00
Accounts Receivable	8,283.85
Accrued Wages	123.75
Cash on Hand	78.25
Bank Overdraft	2,338.40
Furniture and Fixtures	488.20
Capital Account	13,389.75
Inventory Merchandise at date	10,828.60

The transactions for the month are summarized from the different books as follows—

Record of Cash Received—

Cash Sales		$1,222.40
Received on Charge accounts		4,185.00
Refund of Duty on Merchandise		7.50
Bank Deposits	$5,384.50	
Exchange deducted by Bank	8.85	$5,393.35

Record of Cheques Issued—

Cheques Issued	$4,327.75
Paid Wages in full to date	627.40
,, Expenses	683.45
,, Duty on Merchandise	261.35
,, on Accounts Payable	1,955.55
,, Drawings A for month	800.00

Record of Sales—

Charge Sales	5,782.75
Cash Sales	1,222.40

Purchases—

Merchandise Bought—credit A/cs Payable	3,327.55

Discount Entries—

Discount allowed on Charge A/cs paid	$102.25
Discount Received on A/cs Pay. paid	42.35
Inventory Merchandise at January 31, 19—	9,501.45

Open Ledger accounts, then pass the above totals through the Journal, post to the Ledger and prepare the Trading account, Profit and Loss account, and Balance Sheet.

4. The Manager of a certain company, upon being shown the statement of Profits for the year ending December 30, 19—, of $5,000.00, wants to know why it is that the company is short of ready cash. He supplies you with the two Balance Sheets following. The first one shows the position of the company at the commencement of business, and the second the position at the end of the year.

Balance Sheet at Commencement of Business

JANUARY 1, 19—

Assets		*Liabilities*	
Cash on Hand	$ 4,750.00	Accounts Payable	$ 4,500.00
Materials on Hand	12,000.00	Capital Paid Up	20,000.00
Plant and Machinery	7,250.00		
Furniture and Fixtures	500.00		
	$24,500.00		$24,500.00

Balance Sheet

DECEMBER 31, 19—

Assets		*Liabilities*	
Cash on Hand	$ 250.00	Account Payable	$ 2,750.00
Accounts Receivable	3,000.00	Capital Paid Up	20,000.00
Inventory, Stock in Trade	14,000.00	Profits for Year	5,000.00
Plant and Machinery	10,000.00		
Furniture and Fixtures	500.00		
	$27,750.00		$27,750.00

Draw up a small statement to show why, in spite of these profits, the company is short of funds.

5. You are a bookkeeper for A. Green and your employer asks you to prepare a Balance Sheet as at December 31, 19—, for him to show his banker. The banker will want to see at a glance the amount of current (fluid)

assets and the amount of current liabilities. Prepare the Balance Sheet from the following balances—

Open Accounts Payable *Cr.*	$ 2,500.00
Capital *Cr.*	25,000.00
Cash *Dr.*	250.00
Reserve for Bad Debts *Cr.*	500.00
Profit and Loss *Cr.*	100 00
Open Accounts Receivable *Dr.*	5,000.00
Bills Receivable *Dr.*	500.00
Building (on leasehold land) *Dr.*	10,000.00
Mortgage on Building *Cr.*	5,000.00
Bank *Cr.*	2,500.00
Trade Bills Payable *Cr.*	10,000.00

There are Bills Receivable under Discount at the Bank amounting to $10,000; Expenses Accrued and Unpaid, $300; Expenses paid in advance, $150.00. The inventories are as follows—

Furniture and Fixtures $2,000.00, Merchandise $20,000.00; Plant and Machinery $8,000.00.

ACCOUNTING

GENERAL COURSE

Lesson 17

Branch Accounts

General Explanation

A BRANCH business is one that is established by a concern with a view to carrying on operations in another place. The concern that opens or founds or carries on a branch is known as the Head Office.

The branch business is operated, usually, as though it were a separate concern altogether, so far as its relation to the general public is concerned, but though it does operate as a separate business, it and the Head Office are within the same organization.

Special Features

CAPITAL ACCOUNT

Instead of an account for a person as proprietor the Branch treats Head Office as its proprietor, and the Head Office account is thus the Capital account in the branch books.

PROFIT AND LOSS

The Branch is established for the purpose of earning profits for the Head Office, just as any business is established to earn profits for its proprietor. If the season's operations result in a profit, the Branch transfers the amount to the credit of Head Office account, while a loss for the year would be debited to Head Office account.

In the Head Office books the Branch account is charged with profits earned by the Branch and credited with losses, the Head Office Profit and Loss account being credited and charged respectively. It follows naturally that this should be done for, since profits are always represented by a corresponding increase in assets, the Branch assets will be increased by the amount of profits earned and decreased by losses sustained, and the amount for which it must account to Head Office is increased or decreased accordingly.

Purchase Transactions Between Head Office and Branch

Usually the Head Office supplies the Branch with goods, either from its own stock or by buying, from outsiders, goods to be shipped to the Branch direct. The Branch may give orders for goods, but the payment would generally be made by Head Office. In such cases, or where goods are ordered by Head Office for the Branch, invoices may be sent in duplicate to the

Branch and forwarded to Head Office, or one copy to each, or both to Head Office, which then has a check on the transactions before the invoices are passed by the Branch. When paid, one copy, receipted, may be sent by the payee to the Branch, that they may have a record of all purchases on file.

When only one copy of the invoice is sent with the goods the following method is often adopted. The Branch makes a copy of the invoice on a form provided for the purpose. When payment is to be made the original invoice and the copy are forwarded to Head Office. Payment is made by Head Office, the original invoice is marked " paid " and returned to the Branch, the copy being retained by them.

When goods are sent out from Head Office stock it must be remembered that if shipped to the Branch, they are not sold in the ordinary course of operation, and so *must not be credited to sales in the Head Office books.* A special book, separate from the Sales Book, may be kept for such shipments, each being recorded as made. While each could be posted to the debit of the Branch account as recorded, this is not necessary, but at the end of each month the book should be totalled and a Journal entry made—

X Branch (*Dr.*)
To Goods Shipped to Branches (*Cr.*)

for cost of goods shipped to X branch.

We could have credited the amount to Stock-in-Trade (Inventory) or Purchases Account as is sometimes done, but you will see that the fact of sending goods out to a Branch does not reduce our total purchases, nor would it show a true state of affairs to credit Stock-in-Trade account since the Stock-in-Trade account relates to stock on hand at the beginning of the year, and the information thus recorded is better preserved as such. This is very often done in practice, however. At the end of the year the special account " Goods Shipped to Branches " is closed to the credit of Trading account.

When preparing a Trading Statement apart from the Ledger, the item of Goods Shipped to Branches may be deducted, and thus treated in the same manner as a closing inventory.

When the goods are received by the Branch the invoice is recorded in the Purchase Book, as any other purchase would be, and the amount posted to the credit of Head Office account.

If the goods are ordered by Head Office to be shipped to the Branch direct, or if the order is given by the Branch, but the amounts are paid by Head Office, the invoices are recorded in the Branch Purchase Book as usual, and the total may be credited to Head Office, the only entry for all purchases for a period being—

Purchases (*Dr.*)
To Head Office (*Cr.*)

The Head Office, on the other hand, will charge the Branch with the total and credit the firms from whom purchases are made with the separate amounts. If a separate book is not used for the purpose an additional money

column should be inserted in the Purchase Book for each Branch, so that the total to be charged to each Branch can be distinguished from purchases for local trading to be charged to Purchases account.

Cash Transactions Between Head Office and Branch

Reference has already been made to purchases for the Branch being paid by Head Office and charged to the Branch.

While the method followed is not always the same it may be assumed that usually the Branch remits, or deposits for the credit of Head Office, all its cash receipts, charging Head Office as it does so. All charges for the Branch, except small local items for which a stated amount is given the Branch, are paid by Head Office. When the Branch receives the first amount of petty cash it charges Petty Cash account and credits Head Office. As payments are made a record is kept in the Petty Cash Book, and when a cheque is received to cover these, the expense accounts affected are charged and Head Office credited.

As payments are made by Head Office for Branch Expenses, the Branch is charged from the Cash Book entry, the Branch charging the expense account affected and crediting Head Office account in its books.

Relation Between the Accounts of Head Office and Branch

The Branch should have a complete set of accounts as though it were a separate business, and so it can prepare Trading and Profit and Loss accounts in the usual way. The Head Office may (but not necessarily) keep a complete set of accounts for the Branch as well, so that it will know just how much is charged under each kind of Branch expense as well as all the Branch credits, the working accounts being closed out at the end of the year, the Trading and Profit and Loss accounts corresponding with those prepared by the Branch, the net profit or loss being transferred to the Branch account as explained. In such a case the Ledger for the Branch would be separate from the Head Office Ledger in which the Branch account is kept.

Whether a complete set is kept both in Head Office and Branch, or in only one place, the fact remains that the Branch account in the Head Office books agrees with the Head Office account in the Branch books, the balances being on opposite sides. After the Profit and Loss account at the Branch has been closed into Head Office account, the balance in the latter account represents the net difference between the Assets and Liabilities at the Branch.

System Illustrated

Head Office

The following transactions, when put through the respective books, will illustrate the foregoing—

Jan. 2. The London Produce Co. opened a Branch in Belleville, sending thereto, from stock, Goods $4,000.00, and also Cash (Cheque) for an Imprest fund $400.00.

Feb. 1. Purchased goods for the Branch from A. & Co., $6,000.00. Received from Branch, Cash, $2,800.00.

„ 15. Received from Branch, Cash $3,000.00.

Mar. 1. Sent Goods to Branch from stock $2,000.00, and received from Branch, Cash $2,500.00.

„ 15. Received from Branch, Cash $1,200.00. Branch reported local expenses paid from Imprest Fund $300.00, and cheque was sent to cover. Paid rent $200.00, and Expenses $400.00, for Branch.

Received from Branch a report for period showing—

Goods on hand	$ 2,500.00
Accounts Receivable	2,000.00
Cash—Imprest Fund	400.00
Total Sales	11,500.00
Net Profit	1,100.00

The Head Office entries for the above would be made in the usual way, as already explained, but for convenience we will show them in simple Journal form as below—

Jan. 2.	Belleville Branch		$4,400.00	
	To Goods shipped to Branch			$4,000.00
	„ Bank			400.00
Feb. 1.	Belleville Branch		$6,000.00	
	To A & Co.			$6,000.00
„ 15.	Cash		$2,800.00	
	To Belleville Branch			$2,800.00
„ „	Cash		$3,000.00	
	To Belleville Branch			$3,000.00
Mar. 1.	Belleville Branch		$2,000.00	
	To Goods shipped to Branch			$2,000.00
	Cash		$2,500.00	
	To Belleville Branch			$2,500.00
„ 15.	Cash		$1,200.00	
	To Belleville Branch			$1,200.00
	Belleville Branch		$ 300.00	
	To Bank			$ 300.00
	to cover payments from Imprest Fund,			
	Belleville Branch		$ 600.00	
	To Bank			$ 600.00
	Rent $200.00, and Expenses $400.00, paid for Branch, and (after Profit and Loss account is prepared)			
	Belleville Branch		$1,100.00	
	To Profit and Loss			$1,100.00

The other transactions of the Head Office for the period have not been recorded, but it is assumed that, after giving effect to the transactions between the Head Office and the Branch, but before bringing in the profit at the Branch or preparing Trading and Profit and Loss accounts, the Trial Balance is as shown at the top of the next page.

Capital		$ 29,800.00
Cash	$ 3,000.00	
Belleville Branch	3,800.00	
Merchandise—January 1	14,000.00	
Purchases	60,000.00	
Accounts Receivable	18,000.00	
Accounts Payable		6,000.00
Sales		63,000.00
Goods shipped to Branch		6,000.00
Expenses	6,000.00	
	$104,800.00	$104,800.00

Stock on hand $15,000.00.
Next follow Head Office Trading and Profit and Loss accounts.

Trading Account

Merchandise—January 1	$14,000.00	Sales	$63,000.00
Purchases	60,000.00	Merchandise—Inventory	15,000.00
Gross Profit	10,000.00	Goods shipped to Branch	6,000.00
	$84,000.00		$84,000.00

or

Trading Account

Merchandise—January 1	$14,000.00	Sales	$63,000.00
Purchases	60,000.00		
	$74,000.00		
Deduct Inventory $15,000.00			
Deduct Shipt. to Branch 6,000.00	21,000.00		
Cost of Goods Sold	$53,000.00		
Gross Profit	10,000.00		
	$63,000.00		$63,000.00

Profit and Loss

Expenses	$ 6,000.00	Gross Profit	$10,000.00
Net Profit—Local	4,000.00		
	$10,000.00		$10,000.00
Capital—Total Net Profit	$ 5,100.00	Balance	$ 4,000.00
		By Belleville Branch	1,100.00
	$ 5,100.00		$ 5,100.00

SHAW SCHOOLS LIMITED

Balance Sheet

Assets		*Liabilities and Capital*	
Cash	$ 3,000.00	Accounts Payable	$ 6,000.00
Accounts Receivable	18,000.00	Capital	34,900.00
Merchandise	15,000.00		
Belleville Branch	4,900.00		
	$40,900.00		$40,900.00

Note. The amounts given in the Trial Balance for Belleville Branch and Goods Shipped to Branch are the result of the entries we have made as above.

BRANCH

In the Branch's books the entries for transactions with the Head Office will be the reverse of those in the Head Office books for the same transactions. Expressed in Journal form the entries in the Branch books will be as below—

Jan. 2.	Purchases	$4,000.00	
	Cash—Imprest Fund	400.00	
	To Head Office		$4,400.00
Feb. 1.	Purchases	$6,000.00	
	To Head Office		$6,000.00
	Goods sent by H. O. from A & Co.		
	Head Office	$2,800.00	
	To Cash		$2,800.00
,, 15.	Head Office	$3,000.00	
	To Cash		$3,000.00
Mar. 1.	Purchases	$2,000.00	
	To Head Office		$2,000.00
,, 1.	Head Office	$2,500.00	
	To Cash		$2,500.00
,, 15.	Head Office	$1,200.00	
	To Cash		$1,200.00
	Expense	$ 300.00	
	To Head Office		$ 300.00
	Cheque to cover payments from Imprest Fund		
	Rent	$ 200.00	
	Expense	$ 400.00	
	To Head Office		$ 600.00
	Items paid by H. O.		
	also		
	Accounts Receivable	$11,500.00	
	To Sales		$11,500.00
	Cash	$ 9,500.00	
	To Accounts Receivable		$ 9,500.00

Branch Trial Balance

Cash—Imprest Fund	$ 400.00	
Purchases	12,000.00	
Accounts Receivable	2,000.00	
Sales		$11,500.00
Expense	700.00	
Rent	200.00	
Head Office		3,800.00
	$15,300.00	$15,300.00

Trading Account

Purchases	$12,000.00	Sales	$11,500.00
Deduct Inventory at end of period	2,500.00		
Cost of Goods Sold	$ 9,500.00		
Gross Profit	2,000.00		
	$11,500.00		$11,500.00

Profit and Loss

Expense	$ 700.00	Gross Profit	$2,000.00
Rent	200.00		
Net Profit	1,100.00		
	$2,000.00		$2,000.00
Head Office	$1,100.00	Balance	$1,100.00

Journal Entry

Profit and Loss	$1,100.00	
To Head Office		$1,100.00

to close Profit and Loss to Head Office.

Balance Sheet

Assets		*Liabilities*	
Cash—Imprest Fund	$ 400.00	Head Office	$4,900.00
Accounts Receivable	2,000.00		
Merchandise	2,500.00		
	$4,900.00		$4,900.00

The Balance Sheets of the Head Office and Branch have been shown as separate statements but, as already pointed out, they form parts of one

organization, and so these Balance Sheets may be consolidated into one. In doing this there will be shown but one Capital account, that given in the Head Office statement. The asset "Belleville Branch," which appears in the Head Office Balance Sheet, will not be included in the Consolidated Balance Sheet, but instead there will be included the assets of the Branch which make up that amount, the Balance Sheet being as below—

Consolidated Balance Sheet

Assets		*Liabilities and Capital*	
Cash	$ 3,400.00	Accounts Payable	$ 6,000.00
Accounts Receivable	20,000.00	Capital	34,900.00
Merchandise	17,500.00		
	$40,900.00		$40,900.00

The above shows the position of the business as a whole, while the statements of Trading and Profit and Loss indicate the result from operations in each part.

Combined Statements

Below are illustrated the forms of combined statements which bring together the Trading and Profit and Loss accounts and Balance Sheet of the Head Office and Branch separately, and also of the business as a whole.

Combined Trading Account

	Head Office	Branch	Total		Head Office	Branch	Total
Merchandise, Jan. 1	14,000 00		14,000 00	Sales	63,000 00	11,500 00	74,500 00
Purchases	60,000 00	12,000 00	72,000 00				
	74,000 00	12,000 00	86,000 00				
Deduct Inventory, Dec. 31	15,000 00	2,500 00	17,500 00				
	59,000 00	9,500 00	68,500 00				
Deduct Goods Ship'd to Br'ch	6,000 00		6,000 00				
Cost of Goods Sold	53,000 00	9,500 00	62,500 00				
Gross Profit	10,000 00	2,000 00	12,000 00				
	63,000 00	11,500 00	74,500 00		63,000 00	11,500 00	74,500 00

Combined Profit and Loss Account

	Head Office	Branch	Total		Head Office	Branch	Total
Expenses	6,000 00	700 00	6,700 00	Gross Profit	10,000 00	2,000 00	12,000 00
Rent		200 00	200 00				
Net Profit	4,000 00	1,100 00	5,100 00				
	10,000 00	2,000 00	12,000 00		10,000 00	2,000 00	12,000 00

The use of red ink to denote deductions is found convenient in the preparation of combined Trading or Profit and Loss accounts. In the following example the item of $1,000.00 is written in red ink to denote a loss at Branch No. 2.

Combined Profit and Loss Statement

	H.O.	Branch No. 1	Branch No. 2	Total
Expenses	$6,000.00	$2,800.00	$3,100.00	$11,900.00
Rent		200.00	180.00	380.00
Net Profit	3,500.00	2,000.00	[1]1,000.00	4,500.00
Gross Profit	$9,500.00	$5,000.00	$2,280.00	$16,780.00

[1] Red Ink.

The same principle may be used in preparing percentage statements.

Combined Balance Sheet

Assets	Head Office	Branch	Total	*Liabilities*	Head Office	Branch	Total
Cash	3,000 00	400 00	3,400 00	A/cs Payable	6,000 00		6,000 00
A/cs Receivable	18,000 00	2,000 00	20,000 00	Capital	34,900 00		34,900 00
Merchandise	15,000 00	2,500 00	17,500 00	Head Office		4,900 00	
Belleville Branch	4,900 00						
	40,900 00	4,900 00	40,900 00		40,900 00	4,900 00	40,900 00

It will be noted that the total columns of the Combined Balance Sheet represent the Assets and Liabilities of the business as a whole. The amount of $4,900.00 is entered in the inner columns only for balancing purposes.

Had there been a Reserve for Bad Debts, various devices might have been used to show this as a deduction on the debit side.

(*a*) Enter the accounts receivable as the first item on the Combined Balance Sheet and show the deduction in the usual way except that the net

balance will be shown immediately below instead of being carried to the right, as in an ordinary Balance Sheet.

(*b*) Enter only the net balance in the various columns and account for the Reserve by a memo. in the particulars column or as a footnote at the bottom of the Balance Sheet.

Goods, Cash, etc., in Transit

As explained and illustrated in the preceding pages, the account for the Branch in the Head Office books and the account for Head Office in the Branch books should be in agreement, showing the same balance but on opposite or reverse sides of the accounts. This assumes that all transactions between them that have been recorded in the books of one have also been recorded in the books of the other when the books are closed for the year.

This may not be the case when shipments of goods or remittances of cash sent by one office to the other about the end of the year do not reach the other office until the new year. The office making the shipment or remittance will have it recorded in its books, but the other will not. In order that the accounts will be brought into agreement the office having made the record will reverse it and show the amount as an asset in transit.

EXAMPLE

The Hamilton Supply Co. has a branch in London. On December 31, 19—, the Head Office Books show a balance at the debit of London Branch account of $9,000. The statements sent in by London Branch show a credit balance, in the Head Office account, of $7,800, there thus being a difference of $1,200.00.

Head Office had shipped goods, $800.00, to London on December 31, which were received in London on January 2, 19—. London had remitted to Hamilton, $400.00, on December 31, and this was received on January 2, 19—.

ADJUSTING ENTRY IN HAMILTON BOOKS

Goods in Transit	$800.00	
To London Branch		$800.00

to reverse charge to London for goods shipped but not received before end of year.

Note. The balance in the account for London is now $9,000.00 – $800.00 = $8,200.00.

ADJUSTING ENTRY IN LONDON BOOKS

Cash in Transit	$400.00	
To Head Office		$400.00

to reverse charge to Head Office for cash remitted but not received by Head Office before end of year.

Note. The balance in the account for Head Office is now $7,800.00 + $400.00 = $8,200.00, the two thus being in agreement.

Goods in transit do not affect the Trading account. If Head Office ships goods from its own stock to a branch, the branch is charged. If the Head Office orders goods from the wholesaler for the branch, the branch is charged and the vendor credited. In either case, if the goods are in transit at the end of the year, the entry in Head Office books is—

Goods in Transit
To Branch

The Branch account is thus adjusted but the other accounts are not affected.

The Branch charges its Purchases account only when the goods are actually received.

Interest Charged to Branch by Head Office

If the Head Office has to borrow money to conduct the business it will probably charge the Branch with a fair amount of interest, as it would not be a fair distribution of charges if the Head Office paid for the use of the capital and allowed the Branch to use it free of charge. Neither would it be equitable if the Head Office were to charge the Branch with more than its fair share of the interest, and thus put the interest charge all on one section of the business, and leave to the Head Office the full use of invested capital. Some line of division will be established and the charge made accordingly. If the Head Office has invested $100,000.00 and borrowed $20,000.00, while the running balance in the Branch account is $30,000.00, the Branch is using one-quarter of the total capital employed, and to make a fair division between it and Head Office, the Branch may be charged with one-quarter of the interest on borrowed capital. If the invested capital is tied up in fixed assets at the Head Office, and borrowed money is used as working capital, the charge to the Branch should be on the amount it uses. The exact manner of distribution will be governed by conditions.

EXAMINATION QUESTIONS

Lesson 17

1. The following is the Trial Balance of the books of the Fine Furniture Co., Limited, of April 30, 1940—

Purchases	$52,887.50	
Rent and Taxes	2,327.50	
Interest	138.70	
Salaries and Wages—Selling	3,828.80	
,, —General	2,800.00	
,, —Office	825.00	
Delivery Expenses	600.00	
Office Expenses	227.80	
General Expenses	3,287.20	
Advertising	1,808.65	
Cash on Hand	289.20	
Bank Balance	877.50	
Inventory Merchandise, Oct. 31, 1939	38,728.35	
Furniture and Fixtures	4,828.75	
Dividend Paid December 1, 1939	3,200.00	
Sales		$ 65,000.00
Discount Received		887.45
Bills Payable—Bank		3,000.00
Accounts Payable		6,338.25
Reserve for Depreciation on Furniture and Fixtures		1,200.00
Profit and Loss account: Balance Oct. 31, 1939		8,229.25
Capital Stock—Paid Up		32,000.00
	$116,654.95	$116,654.95

A record has been kept of the cost of all merchandise sold, which shows the cost for six months to above date to be $42,785.35. There are accrued taxes to date not entered in books of $75.00, but all other expenses have been paid or provided for. Depreciation on Furniture and Fixtures, however, has to be charged for the six months of $225.00

Prepare—

Balance Sheet.

Trading account.

Profit and Loss account.

Percentage Statement of Gross Profit, Expenses, etc., to Sales.

2. Jones & Company, Limited, with its Head Office at Toronto, and a Branch at Winnipeg, closes its books at December 31, 1940. The following are the Trial Balances at that date—

Head Office—Toronto

Accounts Payable		$ 4,100.00
Accounts Receivable	$ 22,000.00	
Cash on Hand and in Bank	4,200.00	
Dividends paid in 1940	3,500.00	
Expenses	9,500.00	
Capital Stock		35,000.00
Furniture	1,000.00	
Goodwill	6,200.00	
Inventory Merchandise, Dec. 31, 1939	12,500.00	
Purchases, Freight, and Duty	45,000.00	
Profit and Loss account		4,600.00
Sales		72,000.00
Winnipeg Branch (owing by)	11,800.00	
	$115,700.00	$115,700.00

Winnipeg Office

Accounts Payable		$ 3,000.00
Accounts Receivable	$ 6,000.00	
Bank		500.00
Cash on Hand	100.00	
Expenses	5,000.00	
Furniture	500.00	
Head Office (amount owing)		11,100.00
Inventory, Merchandise, Dec. 31, 1939	8,000.00	
Purchases, Freight and Duty	20,000.00	
Sales		25,000.00
	$39,600.00	$39,600.00

Inventory, Merchandise, on hand December 31, 1940—

Toronto	$13,000.00
Winnipeg	6,000.00

Toronto has shipped Winnipeg $700 in merchandise which is in transit at the date of the Balance Sheet. Provision is to be made for $200, estimated amount of Bad Debts at Winnipeg. Other than this no provisions are to be made for Bad Debts and Depreciation.

Make Journal Entries closing books of each office. Draw up combined Balance Sheet and Profit and Loss Statements for presentation to the shareholders. Also give a Trial Balance of the books at each office after all closing entries have been made.

ACCOUNTING

GENERAL COURSE

Lesson 18

Partnership Adjustments

GENERAL EXPLANATION

BY Partnership Adjustments reference is made to the accounting features relating to changes in the firm; such as, bringing in new partners, retirement of partners, etc., with the various special features that may arise in connection therewith. The term may be applied to the adjustment at the end of the year for the division of profits, allowances for salaries, interest on capital, etc. It will be observed that the reference is to matters affecting partners among themselves and not to transactions with the public in the ordinary course of business operation.

It is well to keep in mind that when a new partner is admitted it marks the formation of a new firm, and the same is true if a partner retires and the remaining partner or partners continue the business. This will be readily understood if the effect is noted when a person in business alone admits a partner. Before the partner was admitted the business was that of a Sole Trader, afterwards it became that of a partnership or firm, which is a different kind of organization; and if another partner is later admitted it is a new firm, although an organization of the same kind as before.

Again, a sole trader or a firm may change the business to that of a Joint Stock Company, as explained and illustrated in Lesson 13, the same business being continued under another form of organization.

In each of these cases it is necessary that the accounts should be adjusted to bring them into conformity with the requirements of the new or changed form of organization.

Taking in or Admitting a Partner

This feature may arise under various conditions and an endeavour will be made to illustrate a number of these to bring out each one separately. In raising balance sheets for this purpose, instead of giving a list of the various assets and liabilities we shall condense these and show the total as Sundry Assets, etc.

EXAMPLE (*a*)

A is in business with capital as shown in the Balance Sheet below. He admits B as a partner, B investing $10,000.00 Cash for a half-interest. Raise necessary entries.

SHAW SCHOOLS LIMITED

Balance Sheet

Sundry Assets	$20,000.00	Sundry Liabilities	$10,000.00
		A—Capital	10,000.00
	$20,000.00		$20,000.00

In this case B brings into the business Cash, $10,000.00, which is exactly the same amount as A has in the business, as shown by his Balance Sheet. When he has brought in this amount each will have $10,000.00 at his credit. The entry would be made on the Received side of Cash Book and posted to the credit of B's Capital account. Expressed in Journal form this would be—

Cash	$10,000.00	
To B—Capital		$10,000.00

Each has the same, or one-half the capital, and the Balance Sheet of the firm will be—

A and B

Assets		*Liabilities*	
Sundry	$20,000.00	Sundry	$10,000.00
Cash	10,000.00	A—Capital	10,000.00
		B—Capital	10,000.00
	$30,000.00		$30,000.00

EXAMPLE (*b*)

Assuming that A's Balance Sheet is as given in (*a*) and B brings in $12,000.00 for a half interest, raise the necessary entries.

The new feature brought out in this example is that B is paying in to the business $2,000.00 more for a half interest than A's Balance Sheet shows his interest to be worth. Since, however, each is to have a half, their capitals must be the same after B comes in, and it must have been agreed upon that A's interest will be represented by $12,000.00 as well as B's. This means that their combined capitals will be $24,000.00. $10,000.00 + $12,000.00 would give only $22,000.00. It is evident that A is placing a value of $2,000.00 on the Goodwill of his business and intends to record this now when he is a Sole Trader, and before he hands his business over to the firm of A and B. His entry (made in Journal) is—

Goodwill	$2,000.00	
To A—Capital		$2,000.00

B now brings in $12,000.00, the entry being made in the Cash Book, but expressed in Journal form it will be—

Cash	$12,000.00	
To B—Capital		$12,000.00

Their Balance Sheet will now appear as below—

A and B

Assets		*Liabilities*	
Cash	$12,000.00	Sundry	$10,000.00
Sundry	20,000.00	A—Capital	12,000.00
Goodwill	2,000.00	B—Capital	12,000.00
	$34,000.00		$34,000.00

Next, suppose that A and B do not wish to retain the Goodwill account in the books, also that they share profits and losses equally.

Goodwill need not be written off, but may remain as one of the assets acquired. However, being intangible, and thus not of value as a basis for credit, some may desire to take it out of the accounts and, if so, it should, in the case of a partnership, be charged to the partners in the proportion they share losses, and not first written off through Profit and Loss account.

Since A and B share losses equally the entry to write off Goodwill would be—

A		$1,000.00	
B		1,000.00	
	To Goodwill		$2,000.00

The capital of each now stands at $11,000.00, and it may not at first be quite clear to you how this can be fair, since B paid in $12,000.00 and A $10,000.00. The value of the Goodwill has not been destroyed, and thus exists and may be brought back into the accounts if desired. The Goodwill formerly belonged to A alone, and B purchased a one-half interest in it with the other assets of the business. If they closed out the business now at the values given in the books, A would receive $1,000.00 of the $2,000.00 paid in by B in excess of $10,000.00. His present interest or equity is $11,000.00, exclusive of Goodwill, or $12,000.00 when it is included. B's equity is of the same amount.

EXAMPLE (*c*)

A's position being shown in (*a*), B pays to A personally $5,000.00 for a half interest in the business. Raise the necessary entries.

In this instance A's Balance Sheet is—

A

Assets		*Liabilities*	
Sundry	$20,000.00	Sundry	$10,000.00
		A—Capital	10,000.00
	$20,000.00		$20,000.00

He has an equity of $10,000.00. B in this transaction pays him only $5,000.00 for a half interest, but he gives the money to A personally and none of the cash is brought into the business as in (*a*) and (*b*). The capital in the business is not increased and since it remains at $10,000.00, of which B holds one-half, it is plain that the capital of each is to be $5,000.00.

Since B paid $5,000.00 direct to A, the transaction consists in his having bought from A a one-half interest in the business for $5,000.00. If B had bought goods from A he would expect A to transfer to him the goods. Now, when he bought not goods but $5,000.00 worth of the capital in the business, he expects A to transfer from himself to B that $5,000.00 worth, and this is recorded by the Journal entry—

A—Capital *Dr.*	$5,000.00	
To B—Capital *Cr.*		$5,000.00

after which the Balance Sheet of the firm is—

A and B

Assets		*Liabilities*	
Sundry	$20,000.00	Sundry	$10,000.00
		A—Capital	5,000.00
		B—Capital	5,000.00
	$20,000.00		$20,000.00

EXAMPLE (*d*)

Next, suppose that B paid A personally $7,000.00 for a half interest, A's Balance Sheet before the transaction being as given in example (*c*).

This time B is paying $7,000.00 to A as the purchase price of one-half of A's equity in the business, but on A's books this equity is shown at $10,000.00 only, whereas if $7,000.00 is the agreed value for one-half the value, the whole must be taken as being $14,000.00 and will appear as such.

The difference of $4,000.00 is the value placed on the goodwill and A will first bring this into the accounts by the Journal entry—

Goodwill	$4,000.00	
To A—Capital		$4,000.00

A's Balance Sheet is now as below—

A

Assets		*Liabilities*	
Sundry	$20,000.00	Sundry	$10,000.00
Goodwill	4,000.00	A—Capital	14,000.00
	$24,000.00		$24,000.00

B now pays A $7,000.00, which A keeps, but for which he must transfer

to B one-half of his equity in the business. This is done by the Journal entry (as in (*c*))—

A—Capital *Dr.*	$7,000.00	
To B—Capital *Cr.*		$7,000.00

The firm is now formed with A and B as equal partners and their Balance Sheet will appear as follows—

A and B

Assets		*Liabilities*	
Sundry	$20,000.00	Sundry	$10,000.00
Goodwill	4,000.00	A—Capital	7,000.00
		B—Capital	7,000.00
	$24,000.00		$24,000.00

Should A and B wish to take Goodwill account out of the books they may do so by the Journal entry—

A	$2,000.00	
B	2,000.00	
Goodwill		$4,000.00

after which each has $5,000.00 at his credit in the account. The Goodwill has not, however, been destroyed and may be returned to the accounts at any time.

EXAMPLE (*e*)

With the following Balance Sheet—

A

Assets		*Liabilities*	
Sundry	$40,000.00	Sundry	$10,000.00
		A—Capital	30,000.00
	$40,000.00		$40,000.00

A admits B and C as partners, they each paying $25,500.00 into the business and $6,000.00 to A personally for a one-third interest in the business. Raise the necessary entries and Balance Sheet—

(*a*) With Goodwill account brought into the books.

(*b*) Without Goodwill account being shown.

SOLUTION

(*a*) Two partners are being admitted this time and part of the investment of each is brought into the business and part is paid direct to A.

The amount paid by each is $31,500.00 for a one-third interest, from which it is evident that the value to be placed on the business as a whole

after they are admitted is $31,500.00 × 3 = $94,500.00, which will be represented by their combined capitals.

A's capital is now $30,000.00, which represents the excess of assets over liabilities to the public. When B and C have each paid in $25,500.00 the net assets over liabilities will be $30,000.00 + $25,500.00 + $25,500.00 = $81,000.00. Hence, if their combined capitals are to be $94,500.00, the difference of $13,500.00 must be the value placed on the Goodwill.

A will bring this into the accounts by the entry—

Goodwill	$13,500.00	
To A—Capital		$13,500.00

his Balance Sheet now being—

A

Assets		*Liabilities*	
Sundry	$40,000.00	Sundry	$10,000.00
Goodwill	13,500.00	A—Capital	43,500.00
	$53,500.00		$53,500.00

B and C each pay in $25,500.00, the entry for which is made in the Cash Book and posted to the credit of their respective Capital accounts. In Journal form this will be expressed as—

Cash	$51,000.00	
To B—Capital		$25,500.00
,, C—Capital		25,500.00

But B and C have each paid A $6,000.00 personally, for which he must transfer to them that portion of his capital, the Journal entry for which is—

A—Capital	$12,000.00	
To B—Capital		$6,000.00
,, C—Capital		6,000.00

The firm's Balance Sheet will now appear as next shown.

A, B and C

Assets		*Liabilities*	
Sundry	$ 40,000.00	Sundry	$ 10,000.00
Cash	51,000.00	A—Capital	31,500.00
Goodwill	13,500.00	B—Capital	31,500.00
		C—Capital	31,500.00
	$104,500.00		$104,500.00

(*b*) If no Goodwill account is to be opened it is known that the combined

capitals will be \$81,000.00 (A \$30,000.00 + B \$25,500.00 + C \$25,500.00 Cash), and that the Balance Sheet will be (each having a one-third interest)—

A, B and C

Assets		*Liabilities*	
Sundry	\$40,000.00	Sundry	\$10,000.00
Cash	51,000.00	A—Capital	27,000.00
		B—Capital	27,000.00
		C—Capital	27,000.00
	\$91,000.00		\$91,000.00

but it may not at first be clear to you how these capital accounts are arrived at.

When B and C paid in \$25,500.00 each, the entry is as above.

Cash	\$51,000.00	
To B—Capital		\$25,500.00
,, C—Capital		25,500.00

Now B and C have each paid \$6,000 personally. You have already observed that the Goodwill value is \$13,500.00, of which $\frac{1}{3}$ is \$4,500.00. When B and C paid A \$6,000.00 each, then they each paid sufficient to pay for $\frac{1}{3}$ of the Goodwill (\$4,500.00) and \$1,500.00 in addition. The Goodwill is not being recorded, so no entry need be made for the \$4,500.00 part of the payment, but since A has received \$1,500.00 additional he must transfer that amount to each from his capital of \$30,000.00. The Journal entry is—

A—Capital	\$3,000.00	
To B—Capital		\$1,500.00
,, C—Capital		1,500.00

which makes A's capital \$30,000.00 – \$3,000.00 = \$27,000.00 and B and C each \$25,500.00 + \$1,500.00 = \$27,000.00.

This same result may be arrived at by raising the Balance Sheet arrived at in (*a*) and writing off Goodwill, the entry being—

A	\$4,500.00	
B	4,500.00	
C	4,500.00	
To Goodwill		\$13,500.00

thus leaving the capital of each at \$31,500.00 – \$4,500.00 = \$27,000.00.

In the previous explanation it has been assumed that a Goodwill account is not to be opened even to close it out again.

Dissolution of Partnerships

Under this head some specific features will be illustrated that are not fully brought out in Lesson 11, where the general principles are dealt with.

EXAMPLE (*f*)

A and B are partners with Balance Sheet as below.

A and B

Assets		*Liabilities*	
Sundry	$20,000.00	Sundry	$16,000.00
A—Capital	1,000.00	B—Capital	5,000.00
	$21,000.00		$21,000.00

They decide to wind up their affairs. The assets realize $18,000.00, and they compromise with their creditors at 70 cents on the dollar. Close out the accounts.

Note. Instead of preparing a list of assets and liabilities these are each given in one total, but from Lesson 11 you will have learned how to treat these separately.

In the above you will observe that A's Capital account has a debit balance instead of a credit balance, as would be expected. This means that either through excessive drawings or losses, or both, his capital has been wiped out and he owes the business $1,000.00 instead of having an amount due to him from the business.

SOLUTION

As Cash is realized from the assets, entry would be made in the Cash Book and posted to the credit of the separate accounts. In Journal form this may be expressed as—

Cash *Dr.*	$18,000.00	
To Assets (separately)		$18,000.00

A loss of $2,000.00 was incurred in realization of assets which will be shown by closing all the accounts, the face value of which was not realized, to Profit and Loss—

Profit and Loss	$2,000.00	
To Assets (separately)		$2,000.00

The payment to the creditors will be recorded on the Paid Out side of the Cash Book, and each will be charged in his account with the amount paid him. In Journal form this is—

Creditors (separately)	$11,200.00	
To Cash		$11,200.00

Since a compromise was effected with the creditors the account of each shows a profit, and all will be closed out to Profit and Loss account—

Creditors (separately)	$4,800.00	
To Profit and Loss		$4,800.00

The Profit and Loss account now shows a net profit, from realization, of $2,800.00, and the Balance Sheet will appear as below.

A and B

Assets		*Liabilities*	
Cash	$6,800.00	B—Capital	$5,000.00
A—Capital	1,000.00	Profit and Loss	2,800.00
	$7,800.00		$7,800.00

The next step is to close the Profit and Loss to the Partners' accounts.

Note. As it is not otherwise stated, it is assumed that the profits and losses are shared equally.

Dr.	*Profit and Loss*		*Cr.*
To Sundry Assets	$2,000.00	By Sundry Creditors	$4,800.00
,, Balance—Net	2,800.00		
	$4,800.00		$4,800.00
To A—Capital	$1,400.00	Balance	$2,800.00
,, B—Capital	1,400.00		
	$2,800.00		$2,800.00

A's account now has a credit balance of $400.00 and B's of $6,400.00, while there is $6,800.00 cash on hand. Each will be paid the amount due him.

A, *Dr.*	$ 400.00	
B, *Dr.*	6,400.00	
To Cash		$6,800.00

From this you will observe that even though a partner's account may show a debit, this may possibly be overcome and a credit balance created before the accounts are finally closed.

EXAMPLE (*g*)

A, B and C are partners sharing profits and losses equally. They have realized on their business and their accounts appear as given in the Balance Sheet below—

A, B and C

Assets		*Liabilities*	
Cash	$2,100.00	A—Capital	$2,700.00
B—Capital	900.00	C—Capital	300.00
	$3,000.00		$3,000.00

B is unable to pay anything on his deficit. Close the accounts.

SOLUTION

The $900.00 owing by B will, since he cannot pay it, be a loss to be borne by A and C. Losses are divided equally, but in the case of partners' deficits you will see that these are not losses from operation at all. If $900.00 is charged equally between A and C, C's account would show a deficit of $150.00 which he would have to pay in, which means he would be paying money to help make up B's deficiency. The courts have decided that this is not intended, unless the agreement provides that it must be so, but that in such cases the deficit will be divided in proportion of capital among the remaining partners, and the cash will, as a matter of course, be divided in the same proportion.

Following this the $900.00 will be divided

$$A\ \frac{2700}{3000}\ \text{of}\ \$900.00 = \$810.00\ \text{and}\ C\ \frac{300}{3000}\ \text{of}\ \$900.00 = \$90.00.$$

The entry will be—

A		$810.00	
C		90.00	
	To B		$900.00

to transfer B's deficit, which he cannot meet, between A and C in proportion to their capitals.

A's account now shows a credit balance of $1,890.00 and C's $210.00, which amounts should be paid them, this just taking all the cash. The record would be made in the Cash Book. In Journal form the entry is—

A		$1,890.00	
C		210.00	
	To Cash		$2,100.00

and the accounts will, when the above have been posted, be closed out.

EXAMPLE (*h*)

A and B have realized on all their assets except Real Estate, against which there is a mortgage of $8,000.00, their balance sheet being as here given and profits and losses being shared in proportion of 3 to 2.

A and B

Assets		*Liabilities*	
Cash	$60,000.00	Mortgage on Real Estate	$ 8,000.00
Real Estate	18,000.00	A—Capital	60,000.00
		B—Capital	10,000.00
	$78,000.00		$78,000.00

B agrees to take the equity in the Real Estate at $12,000.00 to complete the realization. Raise the necessary entries to close the account.

SOLUTION

By the term "equity" is meant "rights" or "interest." Thus A's equity in the business is given as $60,000.00 and B's $10,000.00. The firm's equity in the real estate is $18,000.00 – $8,000.00 = $10,000.00 and when B takes this equity at $12,000.00 he is actually paying $20,000.00 for the property, for he will assume the mortgage of $8,000.00 and be charged $12,000.00 in addition. There will thus be a profit to the firm of $2,000.00.

The entries are—

B	$20,000.00	
To Real Estate		$20,000.00
Mortgage	8,000.00	
To B		8,000.00

B assumes the liability under the mortgage when he buys the property.

Real Estate	$2,000.00	
To Profit and Loss		2,000.00
Profit and Loss	2,000.00	
To A 3/5		1,200.00
,, B 2/5		800.00

The partners' standing when these are posted will be as set out in the Balance Sheet below.

A and B

Assets		*Liabilities*	
Cash	$60,000.00	A—Capital	$61,200.00
B—Deficit	1,200.00		
	$61,200.00		$61,200.00

It is reasonable to assume that B can pay in the amount he owes, $1,200.00, as otherwise A would not have consented to his taking the property. When received, this is recorded in the Cash Book and posted to the credit of B and balances his account. In Journal form the entry may be expressed as—

Cash *Dr.*	$1,200.00	
To B *Cr.*		$1,200.00

after which there is cash $61,200.00, which will exactly pay off A, the entry, which would be made in the Cash Book in Journal form, being

A *Dr.*	$61,200.00	
To Cash *Cr.*		$61,200.00

and when this is posted all the accounts are closed.

Partners' Loans

If, in closing out a business, one or more of the partners have at their credit amounts representing loans or advances to the firm, apart from capital investment, these loans should be paid after outside creditors have been settled with and before any payments are made to the partners on account of capital.

Such loans should be recorded in special accounts for the partners advancing them, and not entered in the capital accounts of such partners.

EXAMPLE

A and B are partners with Balance Sheet as below—

A and B

Assets		*Liabilities*	
Sundry	$30,000.00	Sundry Creditors	$ 6,000.00
		A—Loan account	4,000.00
		A—Capital	12,000.00
		B—Capital	8,000.00
	$30,000.00		$30,000.00

The assets realize $26,000.00. Close out the firm's accounts.

SOLUTION

In Journal form the cash entry on realization of assets is—

Cash	$26,000.00	
To Assets (separately)		$26,000.00

There is a loss of $4,000.00 which is disposed of by the entries—

Profit and Loss	$4,000.00	
To Assets (separately)		$4,000.00
A—Capital	$2,000.00	
B—Capital	2,000.00	
To Profit and Loss		$4,000.00

There is now $26,000.00 cash on hand. The creditors must be settled with first, then A's loan must be paid and, last of all, the partners will be paid their capital. The entries for this in Journal form (but in practice they will be made on Cr. side of Cash Book) will be—

Sundry Creditors	$6,000.00	
To Cash		$6,000.00
A—Loan	$4,000.00	
To Cash		$4,000.00
A—Capital	$10,000.00	
B—Capital	6,000.00	
To Cash		$16,000.00

The accounts will be all closed when the entries are posted.

EXAMINATION QUESTIONS

Lesson 18

1. Messrs. Essex & Brant are equal partners and their Balance Sheet as at December 31, 19—, was as follows—

Assets		*Liabilities*	
Cash on Hand	$ 72.20	Bank Overdraft	$ 1,375.00
Accounts Receivable	9,288.88	Accounts Payable	8,262.20
Merchandise on Hand	14,337.48	Mortgage on Real Estate	6,000.00
Machinery and Plant	4,800.00	Capital account—Essex	14,782.87
Real Estate—at cost	18,517.98	,, —Brant	16,596.47
	$47,016.54		$47,016.54

The business is not paying, so it is decided to wind it up at the above date and, to do so, expenses are incurred of $800.00, the Accounts Receivable realize $8,700.00, the Merchandise $11,500.00, the Machinery and Plant $2,500.00, and the equity in the Real Estate is taken over by Essex for $14,000.00 net.

Prepare statements for the partners, showing partnership accounts, etc., after the business has been wound up as above.

2. (*a*) X is in business with a capital of $20,000.00. He admits Y as a partner, Y paying into the business $22,000.00 for a half interest. Raise necessary entries, the accounts and balance sheet of the new firm, and give an explanation of why you make such entries.

(*b*) Suppose Y had given X $12,000.00 personally, for a half interest. Raise the entries, accounts and balance sheet, with explanation of each step taken.

Note. Only X's capital is given. You will assume there are Sundry Assets of $20,000.00, or Liabilities of say $10,000.00, and Sundry Assets $30,000.00 in X's Balance Sheet before Y is admitted.

3. From the following Trial Balance make out Trading and Profit and Loss Statements and Balance Sheet—

John Smith, Capital Account		$ 6,700.00
John Smith, Drawings	$ 1,250.00	
Travelling Expenses	500.00	
Trade Expenses	300.00	
Rent and Taxes	850.00	
Interest and Discount	125.00	
Purchases	10,000.00	
Sales		16,250.00
Stock on Hand, January 1, 19—	2,732.00	
Furniture and Fixtures	100.00	
Salaries	1,860.00	
Cash on Hand	425.00	
Cash in Bank	3,150.00	
Accounts Receivable	4,260.00	
Accounts Payable		2,602.00
	$25,552.00	$25,552.00

Inventory of Merchandise on hand December 31, 19—, $3,260.00. Accrued Rent and Taxes amount to $63.00, Accrued Salaries amount to $165.00.

4. Below are statements of the Assets and Liabilities of two business concerns, both Limited Companies. Each desires a loan from its bankers of $8,000.00. After putting the balance sheets into such form as you would suggest, give your opinion, with reasons, as to which would be in the more desirable position to be granted a loan and to continue operations without financial difficulty, so far as you can tell from information given.

The X Company, Ltd.

Assets		*Liabilities*	
Cash	$ 500.00	Accounts Payable	$ 6,500.00
Accounts Receivable	14,000.00	Bills Payable	10,000.00
Bills Receivable	18,000.00	Capital—Paid Up	30,000.00
Stock-in-Trade	10,000.00	Reserve Fund	11,000.00
Land	4,000.00	Profit and Loss Balance	4,000.00
Buildings	12,000.00		
Plant and Equipment	3,000.00		
	$61,500.00		$61,500.00

The Y Company, Ltd.

Assets		*Liabilities*	
Cash	$ 200.00	Accounts Payable	$12,000.00
Accounts Receivable	6,000.00	Bills Payable	14,000.00
Bills Receivable	7,000.00	Capital—Paid Up	30,000.00
Stock in Trade	10,000.00	Reserve Fund	4,000.00
Land	10,000.00	Profit and Loss Balance	1,500.00
Buildings	20,000.00		
Plant and Equipment	8,300.00		
	$61,500.00		$61,500.00

5. The following is the Trial Balance of a partnership business as at the date sold to a limited Company—

Cash in Hand	$ 100.00	
Cash in Bank	500.00	
Accounts Receivable	5,000.00	
Merchandise	2,000.00	
Furniture and Fixtures	1 500.00	
Accounts Payable		$1,000.00
Bills Payable		500.00
Reserve for Doubtful Debts		300.00
Capital		7,300.00
	$9,100.00	$9,100.00

The Agreement of Sale states that all Assets of the partnership—except Cash in hand and in bank—are to be taken over by the Limited Company for the sum of $10,000.00, and the assumption by the Company of all the Liabilities of the partnership. Make the necessary opening Journal entries in the books of the Limited Company.

ACCOUNTING

GENERAL COURSE

Lesson 19

Single Entry

To obtain a proper understanding of what is meant by Single Entry bookkeeping it is necessary that the distinguishing features of what is known as Double Entry should be held clearly in mind, as it is by contrasting one against the other that the advantages and disadvantages become apparent.

Double Entry

In the accounts as explained and illustrated throughout the lessons you have observed that the two sides of every transaction have been always recognized. Thus, if goods were sold on account, the customer was charged and Sales account credited. When goods were purchased on account the person from whom the purchase was made was credited and Purchases account charged. Cash was credited and a creditor's account charged when a payment was made on account, and cash debited and a customer's account credited if he paid some money on account. When rent was paid, cash was credited and an account for rent charged, and so on throughout. Every transaction or adjustment record affects two accounts, one being debited or charged and the other credited.

The system that so records both sides of every transaction and shows the double effect is known as Double Entry. Accounts are kept for all customers who become debtors of the business, for creditors, all property held by the business, various expenses, Bills Receivable and Payable, all sources of revenue, other assets and liabilities, and in fact for everything that affects the business.

Under this system the mathematical accuracy of the work can be tested by means of a Trial Balance; the Net Profit or Loss for a period can be determined by bringing together the account balances showing revenue or expenditure, and thus showing from what source the profit or loss is derived; and the various expense or revenue items for one period can be compared with those for another. From the accounts then remaining (the assets and liabilities), a Balance Sheet can be drawn up which, being in balance when the profit or loss for the period has been brought into the accounts, is a further test of mathematical accuracy which gives confidence that it is a true and correct statement, including as it does the adjustments for prepaid and accrued items, etc.

Single Entry Explained

Special Feature

As the name implies, Single Entry does not record both sides of a transaction by keeping accounts in the Ledger for each.

The outstanding feature is that: *Personal accounts only are kept in the Ledger.* Sometimes these are confined to accounts for customers, but usually accounts will be opened for creditors as well.

From this you will note that no accounts are opened for property, nor for expenses, nor revenue, etc. Any system that does not give the information referred to in Double Entry may be termed Single Entry.

Books of Original Entry

Since Single Entry can hardly be termed a system it does not involve definite books necessarily and, in its most rudimentary form, no books of original entry are kept at all, the charges to customers being made from counter slips or some such record, and the credits to customers from a similar record.

Another form includes the Journal or the book from which all posting is done, with a simple Cash Book, with possibly Bill Books as books of record only. The Journal entry would in such case have one side only, this being a debit or credit as required. See the example that follows—

Journal

June	1.	T. Niven	*Dr.*		$35.00
		To 20 bushels barley, $1.00		$20.00	
		,, 10 bushels wheat, $1.50		15.00	
,,	10.	R. Paxton	*Cr.*		60.00
		By Invoice No. 28			
,,	15.	T. Niven	*Cr.*		25.00
		By Cash on Account			
,,	20.	R. Paxton	*Dr.*		20.00
		To Cash on Account			
,,	25.	R. Paxton	*Dr.*		40.00
		To Note given him			
,,	25.	R. Paxton	*Dr.*		4.00
		Discount allowed us			

The above shows records in the Journal for five transactions, from which you could make entries for any kind that may arise. However, this is not a method to be suggested, even if single entry could be recommended.

Instead of following the above as an example, assume a better developed single entry system, in which the same books of original entry are used as have been described for general double entry work. The method would then be—

1. Record the Purchases in the Purchase Book and post to the credit of the creditors' accounts. The Purchase Book will not necessarily be totalled, since no account is kept for purchases or, if totalled, the total will not be posted.

2. Record the Sales on Account in the Sales Book and post to the debit of the customers' accounts in the Ledger. The Sales Book will not necessarily be added, as no account is opened for sales or, if added, the total will not be posted.

3. Record all cash received and payments made in the Cash Book, but post only those amounts that affect personal accounts. No columns, except for Cash and Bank, need be used, as Expense accounts are not opened. The Cash Book will be balanced to verify the balance on hand.

4. Record the discounts and adjustments in the Journal by single entries, as illustrated.

5. Record the Bills Receivable and Payable in their respective books and post to the personal accounts affected, but do not add nor post the totals.

The result is a Ledger with only personal accounts (for customers and creditors) in it. The transactions have, however, been classified instead of being confused by recording all in one book.

Disadvantages of Single Entry

The main features of Single Entry bookkeeping have been explained, not with a view to suggesting the adoption of the system, but, that you will be enabled to deal with it if required. It is not a complete system or one that, in days when Special taxes on income are levied, would be generally acceptable. Some of its disadvantages are—

1. The mathematical accuracy cannot be tested by a trial balance.

2. To ascertain if there are errors in posting the work has to be checked over.

3. A Trading and Profit and Loss account cannot be prepared from books kept by single entry.

4. A Proprietor has no indication of the progress of his business during the year nor until his inventory has been taken since the records do not show the volume of Sales nor the amount of various expenses.

5. If a Profit and Loss statement is prepared by the method adopted under this system (see below) there is no check on errors made in preparing it.

6. Since the Assets and Liabilities are not recorded in the books there is a danger that some may be omitted when listing or preparing a statement of Assets and Liabilities. If any are omitted this statement will not show the true financial position and, since the omission will affect the statement of profit and loss, this also will be incorrect.

7. The accounts do not enable one to show the sources of revenue and expenditure, that is, they do not show the individual items that create the profit or the loss.

8. Not having accounts for revenue and expenditure, details of these for one year cannot be compared with those of another, and so any falling off in particular items of revenue or increase in particular items of expenditure cannot be noted with a view to providing a remedy.

9. There is no record in the accounts that will give the history of fixed

assets, showing their cost or depreciation provision that has been made from time to time, as there is in double entry.

Advantages from Double Entry

These need not be referred to in detail as they are referred to, to some extent, under " Double Entry," and each disadvantage attached to Single Entry means a corresponding advantage from Double Entry. A student should be prepared to discuss these in whatever way they may be asked.

How to Arrive at Present Worth

A full statement of Assets and Liabilities cannot be made from the Ledger which records only personal accounts. If other assets, such as Bills Receivable, Buildings, Land, etc., and Liabilities such as Bills Payable, are to be listed, other sources of information must be drawn upon.

For instance, a scrutiny of the Bill Books should not only enable a bookkeeper to write up a list of Bills Receivable and Bills Payable, but may also reveal the fact that goods or other assets have been purchased or disposed of without having been recorded.

An inventory of goods on hand will be taken. All Assets will then be listed and totalled, the liabilities similarly listed and totalled, and the latter deducted from the former, the resultant figure representing the Present Worth or Capital.

Example

In the business of R. H. Smith the Accounts Receivable and Payable, as shown in the Ledger, amounted to $6,000.00 and $4,000.00 respectively, and Cash on hand and in the bank, as per Cash Book, was $200.00 and $1,500.00 respectively on December 31, 1939. A list of the assets and liabilities is prepared as described above.

A Statement of Affairs would now be prepared. You will observe there is no check on this to prove its correctness, whereas in double entry the slightest error would show itself, since the statement would not balance.

Statement of Affairs, December 31, 1940

Assets		*Liabilities*	
Cash in Hand	$ 200.00	Accounts Payable	$ 4,000.00
Cash in Bank	1,500.00	Bills Payable	5,000.00
Accounts Receivable	6,000.00	Mortgage	3,000.00
Bills Receivable	3,000.00	Capital	12,000.00
Stock on Hand	6,500.00		
Land and Buildings	5,000.00		
Equipment	1,800.00		
	$24,000.00		$24,000.00

Finding the Net Profit or Loss in Single Entry

By the method explained above the Present Worth is found. Suppose now that at the end of the next year the same procedure is gone through and Present Worth is then found to be $14,500.00, as given below.

List of Assets and Liabilities

Assets		
Cash	$ 300.00	
Accounts Receivable	6,500.00	
Bills Receivable	3,500.00	
Merchandise on Hand	9,000.00	
Land and Buildings	5,000.00	
Equipment	1,500.00	$25,800.00
Liabilities		
Accounts Payable	$3,800.00	
Bills Payable	4,700.00	
Mortgage	2,800.00	11,300.00
Present Worth		$14,500.00

If there have been no withdrawals from, or additions to capital, the statement to arrive at profit consists merely of subtracting one Present Worth from the other and finding the difference, which is the Net Profit.

Present Worth December 31, 1940	$14,500.00
Capital—December 31, 1939	12,000.00
Net Profit for year	$2,500.00

If there have been withdrawals of money or goods, or additions to capital during the year *these must be taken into consideration* in arriving at the profit or loss. Suppose now that during the year R. H. Smith had withdrawn $800.00 in cash over and above salary allowance, had taken $150.00 worth of goods for his own use, and had invested during the year $2,000.00 additional capital.

The assets have been increased by $2,000.00 brought in, and so are that much greater than they otherwise would have been, while they are $950.00 less than they would have been had there been no cash or goods withdrawn for personal use.

A statement as shown below may be prepared—

Capital or Present Worth, December 31, 1940			$14,500.00
Capital, December 31, 1940		$12,000.00	
(Added during year by investment)		2,000.00	
Total Investment		$14,000.00	
Withdrawals—Cash	$800.00		
Goods	150.00	950.00	
Net Investment			13,050.00
Net Profit for Period			$1,450.00

SHAW SCHOOLS LIMITED

In order that the Capital account in the Ledger may agree with the Capital account in the Statement of Assets and Liabilities an entry should be made in the Journal crediting Capital account with the Net Profit.

PROBLEM

Mark Ennis submits to you the following information and desires that from it you will prepare a statement showing his profit for the year 1940 and present capital. His books are kept by Single Entry, but he has arrived at what he believes to be the amount of expenses, etc.

Capital, January 1, 1940		$18,000.00
Cash in Hand and in Bank, December 31, 1940		1,500.00
Accounts Receivable	,,	6,500.00
Bills Receivable	,,	3,000.00
Merchandise	,,	6,000.00
Land and Buildings	,,	4,000.00
Machinery and Plant	,,	5,500.00
Accounts Payable	,,	4,000.00
Bills Payable	,,	3,000.00
Expenses	,,	2,000.00

Having been assured that all necessary information has been given you prepare a statement as follows—

Assets		
Cash in Hand and in Bank	$1,500.00	
Accounts Receivable	6,500.00	
Bills Receivable	3,000.00	
Merchandise	6,000.00	
Land and Buildings	4,000.00	
Machinery and Plant	5,500.00	$26,500.00
Liabilities		
Accounts Payable	$4,000.00	
Bills Payable	3,000.00	7,000.00
Present Worth		$19,500.00
Present Worth or Capital, December 31, 1940		$19,500.00
Capital, December 31, 1939		18,000.00
Apparent Net Profit for year		$1,500.00

On further investigation, however, you find that he had invested $2,500.00 additional during the year, had withdrawn $800.00, and had sold machinery valued one year before at $500.00, which is also included in the valuation given above; also that no depreciation had been allowed on machinery, a fair rate being 6 per cent.

With all this information, that had not appeared in the accounts, the statement of profit is to be materially changed and that of capital slightly.

The present capital is affected only by the change in valuation, the profit by this amount and also by added investment and withdrawals.

Capital as per information given		$19,500.00
Deduct Machinery wrongly included	$500.00	
Deduct Depreciation on Machinery	300.00	800,00
Capital after adjustment		$18,700.00
Capital as on January 1, 1940	$18,000.00	
Added during year	2,500.00	
Total Investment	$20,500.00	
Deduct Withdrawals during year	800.00	
Net Capital invested		$19,700.00
Present Capital		18,700.00
Loss during year		$1,000.00

This will illustrate the care that has to be exercised if statements are prepared from single entry.

In double entry the added investment and withdrawals would appear in the accounts without going over the Cash Book, while the sale of machinery would affect the Machinery account at once, and failure to provide depreciation would be at once apparent in a properly drawn Profit and Loss account.

It should be observed that the sale of an asset does not affect the capital, except to the extent of any profit or loss, as its place is taken by cash, or a charge to the purchaser, but the point in this case is that the accounts are kept by Single Entry, and the amount of Capital is found by taking the total of assets less liabilities. The capital was overstated in the first statement, because the statement of assets included machinery that is not on hand, as well as including the value received for it.

The statement could be made in one, as follows—

Assets			
Cash on Hand and in Bank		$1,500.00	
Accounts Receivable		6,500.00	
Bills Receivable		3,000.00	
Merchandise		6,000.00	
Land and Buildings		4,000.00	
Machinery and Plant	$5,000.00		
Less : Depreciation	300.00	4,700.00	
			$25,700.00

SHAW SCHOOLS LIMITED

Liabilities and Capital

Accounts Payable	$4,000.00	
Bills Payable	3,000.00	$ 7,000.00
Present Worth		$18,700.00

Capital as on January 1, 1929	$18,000.00
Added during year	2,500.00
Total	20,500.00
Deduct Withdrawals	800.00
Net Capital	19,700.00
Present Capital	18,700.00
Loss for year	$1,000.00

Profit and Loss in a Partnership—Single Entry

Refer to the statement of affairs on page 4, and instead of being the business of R. H. Smith, suppose it is that of Hunt and Find, whose capital on January 1, 1940, had been $8,000.00 and $4,000.00 respectively. Profits are shared in proportion of 3 and 2. Hunt had added $1,500.00 to his investment during the year and Find $500.00. Each had withdrawn $400.00, and each had taken $75.00 in goods for his own use.

It is required to adjust their capital accounts.

The net profits, as brought on page 5, are $1,450.00, of which Hunt receives 3/5 of $1,450.00 = $870.00, and Find 2/5 = $580.00.

Statement of Hunt's Capital—

Capital, January 1, 1940	$8,000.00
Added during year	1,500.00
Total	9,500.00
Withdrawals	475.00
Net	9,025.00
Add 3/5 profits	870.00
Present Worth, December 31, 1940	$9,895.00

Statement of Find's Capital—

Capital, January 1, 1940	$4,000.00
Added during year	500.00
Total investment	4,500.00
Withdrawals	475.00
Net	4,025.00
Add 2/5 profits	580.00
Present Worth, December 31, 1940	$4,605.00

Hunt and Find
Statement of Affairs, December 31, 1940

Assets		*Liabilities*	
Cash in Hand	$ 300.00	Accounts Payable	$ 3,800.00
Accounts Receivable	6,500.00	Bills Payable	4,700.00
Bills Receivable	3,500.00	Mortgage	2,800.00
Merchandise on Hand	9,000.00	Hunt—Capital	9,895.00
Land and Buildings	5,000.00	Find—Capital	4,605.00
Equipment	1,500.00		
	$25,800.00		$25,800.00

The above exercise will emphasize the necessity of keeping some close record of drawings, investments, sale or purchase of fixed assets and profits from sources outside of operations. Much of this information can be obtained from going back over the previous Statements of Affairs and the Cash Book, and other records at the end of the year, but at the best this is not the most satisfactory. The information must, however, be obtained in some way.

Changing Books from Single to Double Entry

In undertaking this change it must be borne in mind that books that are now in Single Entry form are to be brought into Double Entry form or, in other words, it is required to bring into the books that which under the former system was omitted from a complete record.

The time of change may, and preferably will, be at the end of a financial year, or it may be during a financial period.

Changing at End of Fiscal Year

At the end of the year, after the profit or loss has been found and taken note of in the capital, only assets and liabilities are concerned, and of these the Accounts Receivable and Payable and the Cash are already in the books with the Capital accounts.

Method

Make a Journal entry in double entry form, charging all asset accounts with the amount at which they appear in the Statement of Affairs and crediting all liability accounts and capital with the irrespective amounts. Put

a check mark (√) opposite those already in the Ledger, and post all the others. The books are now in double entry form and in balance.

Refer to the Statement of Affairs of Hunt and Find on page 9. Assume that their books are now to be changed to double entry.

Journal

√	Cash	$ 300.00	
√	Accounts Receivable	6,500.00	
	Bills Receivable	3,500.00	
	Stock on Hand	9,000.00	
	Land and Buildings	5,000.00	
	Equipment	1,500.00	
√	To Accounts Payable		$3,800.00
	,, Bills Payable		4,700.00
	,, Mortgage		2,800.00
√	,, Hunt—Capital		9,895.00
√	,, Find—Capital		4,605.00

When the items not already in the books have been posted the books will be in balance and one may proceed under double entry conditions, the books of original entry being changed in form to meet new requirements.

Making the Change During a Financial Period

Assuming that the conditions explained on page 3 prevail, proceed to make the change by taking the Statement of Assets and Liabilities at the end of the last period, make a Journal entry, as explained on page 9, but, in addition to the items already mentioned, check off Bills Receivable and Bills Payable, and the remaining items will be posted to the accounts opened for the purpose.

To bring in the expense or nominal accounts, it is necessary to post all items affecting these from the Cash Book and Journal, add the Purchase and Sales Books and post the total for each of the months during the period, from the time the last statements were prepared, to date.

In addition to any adjustments affecting the personal accounts, there may be some affecting capital, or fixed assets, such as additional investments, or withdrawals of cash or merchandise for personal use, and purchases or sales of assets, such as store fixtures and delivery equipment. These adjustments should be noted on searching the Journal and Cash Book; those affecting capital should have been posted and this should be verified; those affecting fixed assets will not appear in the Ledger and, of course, should be posted to the accounts affected.

It will be understood that the Bills Receivable account should show as its debit balance the amount of unpaid notes at the date of change. There are two ways of bringing this amount into the books; viz. (*a*) Post the amount appearing in the Statement of Assets and Liabilities; post all items in the Journal and Cash Book affecting that account; post the total for each month from the Bills Receivable Book. This would, however, require much time and is not necessary.

(*b*) Determine the notes receivable unpaid at the date of change (see

" Fate " or " How disposed of " column), make a Journal entry, in single entry form, and post this total to the debit of Bills Receivable account. This latter method gives the reason for checking off the Bills Receivable in the opening Journal entry. The Bills Payable may be brought in in a similar manner.

When all posting is complete, a Trial Balance should be taken off to prove the work. If both sides agree, proceed under double entry.

General Notes Regarding Single Entry

In explaining the principles of Single Entry it is supposed that the Cash Book has separate columns for Cash and Bank, but this is not always the case. There is sometimes a column on each side for Cash only.

The Bank account may be kept in the Ledger and all entries to it posted from the Journal.

Bank *Dr.*		$250.00
To deposit on this day		

An entry would have to be made in the Cash Book crediting cash.

Bank *Dr.*		$295.00
Discounted Note No. 6	$300.00	
Less : Discount	5.00	
Bank *Cr.*		$400.00
By cheques 87, 91, 94		

Another method is to keep a record of the Bank account on cheque stubs only.

Special Form of Cash Book

		Cash		*Dr.*		*Cr.*	
19—							
May	1	R. Bentley—Investment		$8,000	00		
	2	Dominion Bank—Deposit				$7,500	00
	4	Expense—Office Supplies				15	00
	6	Sales—Sold for Cash per Till		80	00		
	10	Sales—Sold for Cash		200	00		
		Balance—Cash in Hand				765	00
				$8,280	00	$8,280	00
May	11	Balance		765	00		
	12	P. Wesley—Paid him on account				300	00
	15	Dominion Bank—Deposit				400	00
	18	O. Warne—Received on account		200	00		

The above is of the simplest form. The Bank account is not kept in it, the purpose being to keep a record of cash in the office only. It is intended that posting is to be done from it to personal accounts, including capital. If not, as is often the case, a Journal entry in single entry form would be

made for each item to be posted, but this is duplication and should not be necessary even for those who do not understand bookkeeping.

It is strongly recommended that accounts be always kept on the Double Entry system, and that wherever Single Entry is found, it be converted to Double Entry at the first opportunity.

Separate Section in Profit and Loss Account for Interest or Discount

To bring down the balance of the Profit and Loss account before entering any items for interest or discount, and to show such items in a separate section of the Profit and Loss account is a modern practice and one that is rapidly growing in favour with accountants.

If this practice were uniformly adopted it would be possible to compare results of trading of businesses of similar nature, as the balance brought down before charging or crediting items of interest or discount represents the operating profit, irrespective of the amount of capital employed, and whether borrowed or invested by the proprietors.

Grouping of Figures in Profit and Loss Account, Etc.

In preparing Profit and Loss accounts and Balance Sheets, the items should be classified and the total of a group of similar items should be extended in one amount. A solid block of figures conveys much less meaning than a properly classified list of items.

EXAMINATION QUESTIONS

Lesson 19

1. A set of books has been kept by Single Entry and you have been asked to convert them to Double Entry. State fully the steps you would take. What advantage has Double Entry over Single Entry?

2. Show clearly how you would ascertain the profits from books kept by Single Entry.

3. Brant & Lane close business as follows: Cash on hand, $400.00; in Bank, $3,000.00; Notes on hand, $1,200.00; Sundry Debtors, $600.00; Goods on hand, $2,100.00; Furniture, $800 (less 10 per cent for Depreciation). They owe Notes Payable, $300.00, and on open accounts $500.00. At the beginning, Brant had: Assets, $4,500.00, and Liabilities, $400.00. He withdrew $200.00, and is allowed interest on his investment $250.00. Lane began with Assets of $4,000 and Liabilities of $1,200. He added to his investment $700, and is allowed interest $170.00. They share gains and losses equally.

   Make out a statement of Assets and Liabilities, and show the Capital accounts properly closed.

4. John Smith, whose books are kept by Single Entry, and whose statement of Profit and Loss and Balance Sheet were last prepared on December 31, 1939, asks you to change his books from Single to Double Entry on June 1, 1940. Explain how you would proceed.

5. Explain the following terms and give examples—

   (*a*) Current Liabilities;
   (*b*) Current Assets;
   (*c*) Fixed Assets;
   (*d*) Closing Entries;
   (*e*) Collateral Security;
   (*f*) Contingent Liability;
   (*g*) Credit Note;
   (*h*) Accrued Charges;
   (*i*) Deferred Charges;
   (*j*) Gross Profit.

6. A Limited Company started business on January 1, 1939, with the following Trial Balance—

Accounts Receivable	$17,398.30	
Inventory Merchandise	58,625.00	
Machinery and Plant	25,824.10	
Goodwill	48,152.60	
Capital Stock		$150,000.00
	$150,000.00	$150,000.00

SHAW SCHOOLS LIMITED

The Trial Balance on December 31, 1939, was as follows—

Accounts Payable		$ 18,582.14
Accounts Receivable	$ 46,298.68	
Bank		273.10
Bills Payable		7,842.05
Bills Receivable	17,485.02	
Capital Stock		150,000.00
Discount Allowed	4,125.20	
Discount Received		3,249.28
Factory Expense	15,718.05	
Freight Out	5,124.80	
General Expense	22,241.17	
Goodwill	48,152.60	
Machinery and Plant	35,725.60	
Petty Cash	100.00	
Purchases	324,891.60	
Sales		453,724.50
Trading Account	58,625.00	
Travellers' Salaries and Expenses	22,542.15	
Wages—Productive	32,641.20	
	$633,671.07	$633,671.07

Inventory of Merchandise on December 31, 1939, was $43,222.20. Provision is to be made for outstanding wages $825.00.

Prepare—

(*a*) Trading account; (*b*) Profit and Loss account; (*c*) Balance Sheet.

ACCOUNTING
GENERAL COURSE

Lesson 20
The Cash Book

THE general principles and various short forms of Cash Books have been explained in Lessons 4 and 10. These same principles are now to be applied in Cash Books with additional special columns.

In the solution given as an illustration of the Cash Book on pages 4 and 5, there are columns on the debit or received side for Sundries, Accounts Receivable, Cash Discount, Exchange and Bank Dr. Deposits are entered in the Bank Dr. column. If all payments except petty cash are not made by cheque and if petty cash is not on the imprest system, a column on each side for cash, *as illustrated in Lesson* 10, would be in order.

In preparing the Cash Book illustrated on pages 4 and 5 it is assumed that petty cash is kept on the imprest system, all cash receipts regularly deposited in the bank, and all payments, except from petty cash, are made by cheque. For this reason the " Cash Dr." and " Cash Cr." are omitted. If you examine this closely you will have no difficulty in finding how the several deposits are made up, nor in finding the cash on hand at any time. This is made easier by dividing the Credit to Accounts Receivable into " Net Cash " and " Cash Discount." The account in the Accounts Receivable Ledger is credited with " net cash " plus " discount " (separately if desired). The total of the " Cash discount Dr." is posted from the summary to the debit of the account for it in the General Ledger, as well as being posted to the credit of Accounts Receivable controlling account, in addition to the amount received as net cash, as illustrated.

The totals of the Cash Discount and Bank Discount columns are carried to the other side and posted to the debit of these accounts, as explained in Lesson 10. The total of Bills Receivable column is posted to the credit of Bills Receivable account, and the same course would be taken with any other special columns that might be introduced.

The advantage from the special columns is that where there are a great number of items affecting one account we are relieved of much work in posting, as the total of the column alone is posted to the general Ledger.

The Sundries column is used for items that are to be posted to accounts not provided with special columns, and are posted separately from this column to the credit of the accounts affected. It is also used when balancing, as illustrated. The column totals that are to be posted are brought into it and posted therefrom, while with this method of summarizing the balance of cash is arrived at.

Had the total credit been placed in the Accounts Receivable column and " Cash Discount Dr.," as shown, the cash received on accounts would be the total of Accounts Receivable column less discounts. The total of Accounts Receivable column would be posted to credit of the Accounts Receivable controlling account and the total of " Cash Discount Dr." to the debit of the " Cash Discount Dr." account. Then Sundries + Accounts Receivable + Bills Receivable = Cash Discount + Bank Discount + Exchange + Bank Deposits + Cash Undeposited, if any.

In the form submitted, Sundries + Net Cash from Accounts Receivable + Bills Receivable = Bank Discount + Exchange + Bank Deposit and Cash on Hand, if any—or – Sundries + Net Cash + Cash Discount, less Cash Discount, Bank Discount, Exchange and Bank Deposits = Cash on Hand for deposit.

On the Credit or Paid Out side of the Cash Book the same course is followed, but the postings are made to the debit side of the accounts affected. An Accounts Receivable column is introduced to take care of items that are to be charged back in the Sales Ledger. This form, as first ruled off, assumes that the Bank Balance is kept in the Cash Book only. If the Bank account is kept in the Ledger, the total of the Bank columns would be brought into the Sundries columns and posted as other columns are—the Bank Dr. column total in the Sundries Dr. column, and the Bank Cr. column total from the Sundries Cr. column. If the cash has been all deposited, there is no balance to be brought down and, if not, there will be the cash undeposited, only, as a balance. The payments to creditors have been divided between " Net Cash " and " Cash Discounts," but this is not so necessary, since the net cash paid is recorded in the " Bank Cr." column, and so it is an easy matter to post this and the discount separately. This is the method followed in the cheque Journal on page 8.

The columns to be provided will be determined by requirements, and you should practise designing Cash Books according to the classes of items to be dealt with and their number. Care must be exercised, in entering up a Cash Book with numerous columns, to place the items in the proper column, as otherwise much confusion will be caused. As an exercise, before working out the examination problems, you should work out the problem on which the illustration is based and check your work with the illustration.

The Cash Book may be balanced without taking into consideration the totals of the Cash Discount columns. These may be journalized either in the General Journal or a Journal entry may be made at the foot of the Cash Book.

Thus—

Discounts Given	$2.40	
To Accounts Receivable		$2.40
Accounts Payable	$2.75	
To Discounts Received		$2.75

It is not necessary, in any case, to keep a Cash account in the Ledger.

Cash Receipts and Deposit Book

Bank or Cheque Journal

These books are explained and short forms illustrated in Lesson 10, but, as in the Cash Book, these may be greatly extended through the use of special columns.

To illustrate this feature, the same problem is taken as that illustrating an extended Cash Book. The same columns are used as on the two sides of the Cash Book submitted. Note how the totals are posted, and also that each book is self-balancing. The respective sides of the Cash Book may be balanced in exactly the same way as a means of proving them.

It is assumed that the Bank account is kept in the Ledger. The total of the " deposits " is posted direct from the footing, and the Ledger folio recorded below the total. The same method is followed with total of " Bank Cr." in the Cheque Journal.

If the bank balance is carried in the Cash Books, the " Bank Dr." column will be balanced against the " Bank Cr." column in the cheque Journal. If all receipts are not deposited a " Cash Dr." column may be introduced and the total of this, less deposits, gives the amount of cash on hand in the " Cash Receipts and Deposits " Book.

If the Accounts Receivable are divided into a number of Ledgers with a control account for each, and no Cash column is used in the Cash Book, a Cash Discount column is provided for each Ledger.

The provision of a Cash Dr. column would do away with the necessity of providing a Discount column for *each* Ledger, because the net amount of cash received in each instance may be recorded in the Cash Dr. column. The full amount that is to be credited to each customer's account may then be entered in the Sales Ledger columns, and one column for cash discounts will be adequate for all purposes.

If the Bank account is kept in the Ledger, then neither the opening nor the closing bank balance should appear in the Cash Book. The total of Bank Dr. column should be posted to the debit of, and the total of Bank Cr. column to the credit of, Bank account in the Ledger.

If the Bank account is kept in the Cash Book, both the opening and the closing bank balance should appear in that book only.

Problem

The following Company makes all its disbursements by cheque, and deposits all its receipts, and the Petty Cash is run on the Imprest System. The Sales Ledger and Purchase Ledger are self-balancing, controlling accounts being kept in the General Ledger.

Rule up the books, providing the necessary columns, and enter the following transactions—

Received cheque $117.60 from Brown & Co., for their account of $120.00, discount of $2.40 being deducted.

SHAW SCHOOLS LIMITED

Dr. (*Received*) CASH

Date 19—	Account to Credit	L. F.	Sundries	Accounts Receivable: Net Cash	Accounts Receivable: Cash Disct. *Dr.*	Bills Receivable	Bank Disct. *Dr.*	Exchange *Dr.*	Bank *Dr.*
	Brown & Co. on A/c			117 60	2 40				
	Duty—Rebate of on A/c		10 20						
	Green & Co. on A/c			25 00					
	Bank Deposit	√						15	152 65
	Bills Receivable Disct. No. ——	√				200 00	10 00		190 00
	Bank Loan—Disctd. our own Note		2,500 00				25 00		2,475 00
	Smith & Co. on A/c			10 00					
	Subscribers—A/c Call No. ——		500 00						
	Bank Deposit	√							510 00
	Brown & Co. on A/c			50 00					
	Bank Deposit	√							50 00
			$3,010 20	$202 60	$2 40	$200 00	$35 00	15	$3,377 65
	Accounts Receivable		202 60						
	Do. for Disct.		2 40						
	Bills Receivable		200 00						
	Cash Discount *per contra*		2 75						
	Balance—Bank Overdraft		2,421 20						2,421 20
			$5,839 15						$5,798 85

NOTE: The above assumes that the Bank account is kept in the Cash Book, and that there is, If, instead of this, the Bank account is kept in the Ledger, where there is probably a balance at "Dr." totals are posted in the same way as the other amount carried into the "Sundries" column. used as a Ledger account as well, it may be described as a Cash Journal.

	3,010 20	202 60	2 40	200 00	35 00	15	3,377 65
Accounts Receivable (Net Cash)	202 60						
Accounts Receivable Discount	2 40						
Bills Receivable	200 00						
Cash Discount *per contra*	2 75						
Bank *per contra*	5,798 85						
	$9,216 80						

CASH (*Paid*) *Cr.*

Date 19—	Account to Debit	L. F.	Sundries	Accounts Payable: Net Cash	Accounts Payable: Cash Disct. *Cr.*	A/cs Receivable	Duty	Postage	Bank *Cr.*
	Richardson & Co. on A/c			47 50	2 50				47 50
	Petty Cash to open fund		30 00						30 00
	Brown & Co., cheque charged back					117 60			117 60
	Office Salaries		210 50						210 50
	Bank Loans paid		5,000 00						5,000 00
	Rent—for May		150 00						150 00
	Petty Cashier for amts. paid out						18 50	6 00	24 50
	Robinson & Co. on A/c			18 75	25				18 75
	J. Black—Note charged back					200 00			200 00
			$5,390 50	$ 66 25	$ 2 75	$317 60	$ 18 50	$ 6 00	$5,798 85
	Accounts Payable (Net Cash)		66 25						
	Accounts Payable Disct.		2 75						
	Accounts Receivable		317 60						
	Duty		18 50						
	Postage		6 00						
	Cash Disct. *per contra*		2 40						
	Bank Disct. *per contra*		35 00						
	Exchange *per contra*		15						
			$5,839 15						$5,798 85
	Balance—Bank Overdraft		$2,421 20						$2,421 20

therefore, no Ledger account for the Bank.
Debit at beginning, the Cash Book may be balanced as shown below, and the Bank "Cr." and
Since in this case the Book is used for recording Cash transactions, and posting them, but it is not

		5,390 50	66 25	2 75	317 60	18 50	6 00	5,798 85
	Accounts Payable (Net Cash)	66 25						
	Accounts Payable Disct.	2 75						
	Accounts Receivable	317 60						
	Duty	18 50						
	Postage	6 00						
	Cash Disct. *per contra*	2 40						
	Bank Disct. *per contra*	35 00						
	Exchange *per contra*	15						
	Bank *per contra*	3,377 65						
		$9,216 80						

Received cash $10.20, being for rebate of duty overpaid.

Paid merchandise account of Richardson & Company for $50 by cheque $47.50, and discount of $2.50.

Gave bookkeeper cheque for $30.00, being amount to start him on the Imprest Petty Cash.

Bookkeeper paid $6.00 out of Petty Cash for postage.

Received cheque $25 from Green & Company in full for their account for merchandise.

Deposited in Bank $152.80, from which they deducted 15c. for Exchange.

Discounted Bills Receivable received from J. Black, $200.00. Bank charged $10.00.

Discounted Company's note for $2,500.00 at the Bank, the proceeds being $2,475.

Smith & Company paid in cheque for $10.00, in part payment of their account.

Received $500.00 cheque for Capital Stock.

Deposited in bank $510.00.

Brown & Company's cheque for $117.60 was returned unpaid and charged back by the Bank.

Received cheque from Brown & Company for $50.00 on account of their cheque returned.

Deposited in bank $50.00.

Bookkeeper paid $18.50 out of Petty Cash for Duty.

Drew cheque $210.50 for office salaries for the week.

Bank charged up our note to them due this date for $5,000.00.

Paid cheque for $150.00 rent for month of May.

Gave bookkeeper cheque for $24.50, being for Petty Cash disbursements to date.

Paid Robinson & Company cheque $18.75 and discount 25c. in full for their account.

Note of J. Black charged back by bank to our account unpaid.

Cash Receipts and Deposit Book

Date 19—	Account to Credit	Led. Fol.	General Ledger	Accounts Receivable: Net Cash	Accounts Receivable: Disct. *Dr.*	Bills Receivable	Bank Disct. *Dr.*	Exchange *Dr.*	Bank *Dr.*
	Brown & Co. on A/c			117 60	2 40				
	Duty—Rebate on ——		10 20						
	Green & Co. on A/c			25 00					
	Deposited in Bank							15	152 65
	Bills Receivable—Discounted No.——					200 00	10 00		190 00
	Bank Loan—Discounted own Note		2,500 00				25 00		2,475 00
	Smith & Co. on A/c			10 00					
	Subscribers—A/c Call No. ——		500 00						
	Deposited in Bank								510 00
	Brown & Co. on A/c			50 00					
	Deposited in Bank								50 00
			$3,010 20	$ 202 60	$ 2 40	$ 200 00	$ 35 00	15	$3,377 65
	Accounts Receivable—*Cr.* (Net Cash)		202 60						L.F.
	Accounts Receivable Discount *Cr.*		2 40						
	Bills Receivable *Cr.*		200 00						
	Bank Discount *Dr.*								35 00
	Exchange *Dr.*								15
	Cash Discount *Dr.*								2 40
			$3,415 20						$3,415 20

Bank (or Cheque) Journal

Date 19—	Account to Debit	Led. Fol.	General Ledger	Accounts Payable	Disct. *Cr.*	Accounts Receivable	Duty	Postage	Bank *Cr.*
	Richardson & Co. on A/c			50 00	2 50				47 50
	Petty Cash, to open fund		30 00						30 00
	Brown & Co., cheque charged back					117 60			117 60
	Office Salaries		210 50						210 50
	Bank Loans, paid No. ——		5,000 00						5,000 00
	Rent for May		150 00						150 00
	Duty and Postage—cheque to cover petty payments						18 50	6 00	24 50
	Robinson & Co. on A/c			19 00	25				18 75
	J. Black, Note No. —— charged back					200 00			200 00
			$5,390 50	$ 69 00	$ 2 75	$ 317 60	$ 18 50	$ 6 00	$5,798 85
									L.F.
	Accounts Payable *Dr.*		69 00						
	Accounts Receivable *Dr.*		317 60						
	Duty *Dr.*		18 50						
	Postage *Dr.*		6 00						
	Cash Discount *Cr.*								2 75
			$5,801 60						$5,801 60

EXAMINATION QUESTIONS

Lesson 20

1. Rule up a Cash Book with suitable columns and record therein the following Cash and Bank transactions—

Note. (The General Ledger, Sales Ledger and Purchase Ledger are self-balancing. All receipts are deposited in the bank and all payments made by cheque, except payments out of Petty Cash, which is kept on the Imprest system. Unless otherwise stated, Receipts are for Sales Ledger accounts and payments for Purchase Ledger accounts.)

For the sake of uniformity in answers, students in working the problem are requested to use the following columns in the Cash Book—

Debit Side—Sundries, Accounts Receivable, Cash Discount Dr. Bills Receivable, Bank Discount Dr., Exchange Dr., Bank Dr.

In Accounts Receivable a separation between "Net Cash" and "Cash Discount Dr." may be made if you wish.

Credit Side—Sundries, Accounts Payable, Cash Disc. Cr., Accounts Receivable, Wages, Expense, Duty, Bank Cr.

Receipts—

T. Marshall, $29.40, in full of his account. (Discount allowed, 60c.)

L. Laing, $14.70.

Cash Sales, $8.34.

Refund Travelling Expenses, $16.25.

Discounted draft on C. Rogers & Company for $43.20. Bank charges, 35c.

Deposited in Bank, $44.10 (less Bank charges, 30c.), and $24.59.

Receipts—

Cash Sales, $15.00.

F. Burton, $122.50 (discount allowed, $2.50).

R. Jenkins, $24.40.

Cash over from Wages, $3.00 (cheque was drawn for $3 too much)

Deposited these last four receipts in the Bank less charges of 20c.

The Company's note discounted for $2,500.00 and Bank charged $51.20.

Cash received from B. King for 10 shares of Capital Stock, $1,000.00.

Received from T. Marshall, $245.32 (discount allowed, $5.01).

Deposited in Bank, $1,245.32.

Discounted draft on C. Dale for $50.00 on which the Bank charged 50c.

Cheques drawn for—

A. McIntyre, $380.00 (discount earned, $20.00).

Petty Cash, $23.46 (Expense, $16.42, and Duty on Purchases, $7.04).

P. Fellows, $142.08 (discount earned, $5.92).

Wages for half month, $443.20.

Dividend, $500.00.

Salaries, $53.00.

Company's note falling due at Bank, $2,000.00.

Duty on Merchandise, $44.40.

C. Kent, $14.40 (discount earned, 60c.).

Refund of Cash Sale, $1.50.

Donation, $25.00.

Petty Cash (Expense), $21.15.

Wages, $421.00.

Rent, $150.00.

Gas, $2.48.

Light, $5.50.

Insurance, $37.50.

Drafts, originally drawn on customers, charged back by Bank: P. Jones $23.30, and C. Rogers $43.20.

Bank charged $1.53 for cablegram.

The Bank account is kept in the General Ledger and the balance at commencement of period was $350.41. Post this account and make out Reconciliation of Bank Balance at the end of the period, cheques for $150.00 and $2.48 being still outstanding.

2. Work the same problem, assuming that Cash Receipts and Deposits Book and Cheque Journal are used.

3. From the Cash Book or Receipts Book and Cheque Journal, as worked out by you, open up the other General Ledger accounts which the entries necessitate, post same and take off a Trial Balance.

Do not assume that the Bank account shows the opening balance, as in Question 1.

ACCOUNTING

GENERAL COURSE

Lesson 21

The Purchase Book

In one of the early lessons a simple form of Purchase Book was used, and it illustrated the principle of Purchase Books generally. Different forms of Purchase Books are in use to meet the requirements of the particular business to which they apply, and this feature must now be considered, the same principle, however, being applied.

The Purchase Book is known by different names; e.g. Purchase Book, Invoice Book, Bought Book, Purchase Journal or Purchase Register.

It contains a record of the purchases of the business. Sometimes the record is confined to goods purchased to be sold again, but frequently it includes everything bought, whether for sale or for use in some other way.

Where there are several departments in a business the purchase records must be kept so that the purchases for each department are kept separate. This form is illustrated below, and may be extended and adapted to suit the requirements of a business having any number of departments.

Purchase Book

DATE		CR. ACCOUNT OF		TOTAL	DRY GOODS	BOOTS & SHOES	GROCERIES
June	1	H.V. Taplin & Co.	65	700 00		700 00	
	4	R.R. Whiting & Co.	72	600 00	400 00		200 00
	6	H.V. Taplin & Co.	65	900 00	300 00	500 00	100 00
	8	R.R. Whiting & Co.	72	500 00	100 00	200 00	200 00
	12	H.V. Taplin & Co.	65	300 00	100 00	150 00	50 00
				3000 00	900 00	1550 00	550 00
					£3. 14	£3. 22	£3. 40

In posting from the above each creditor is credited from the "Totals" column with the total of each invoice purchased from him regardless of the number of departments for which the purchase was made.

The different purchases are distributed among the departments by means of the special column for each. At the end of the month these columns are

totalled and carried to the debit of the account for Dry Goods, Boots and Shoes and Groceries respectively, thus completing the double entry. The aggregate of these totals and that of the " Totals " column should be exactly the same. If they are not, the error must be located before the totals of these columns are posted.

If controlling accounts are kept, and a Purchase Ledger, the amount of each invoice is posted to the credit of the creditors' accounts in the Purchase Ledger in the usual way and, at the end of the month, the totals of the departmental columns are brought into the General Ledger by the Journal entry—

Dry Goods, Purchases	$ 900.00	
Boots and Shoes, Purchases	1,550.00	
Groceries, Purchases	550.00	
To Accounts Payable		$3,000.00

or the same figures may be posted directly from the footings of the Purchase Journal.

In the above form the invoices have been entered as they are received. Form 2 shows the invoices entered at the end of the month only. Under this system the purchases for the month from one firm are kept together, and then, instead of crediting each firm for each separate purchase, it is credited with the total for the month as shown in the column for posting totals. The distribution among the departments is made in the way already described. This is a popular form as it saves a considerable amount of posting.

Another method used to advantage is to list all the invoices of one firm for the month (or week) on a voucher form fastened to the face of the invoices which are in order of date. The voucher and the entries in the Purchases Journal bear the same consecutive numbers. Only the totals of the invoices on each voucher are entered in the Purchase Journal and posted.

In Form 3 the method followed in Form 1 is taken but, in addition to a distribution of the invoice cost of the goods purchased, each invoice is charged with the freight and duty, and these items are distributed among the departments at the same time.

As the freight and the duty on purchases are paid, entry is made in the Cash Book, as usual, and posted to the debit of " Freight and Duty on Purchases " account, but the special column in the Purchase Book enables the posting of the total to the credit of the same account and charging the departmental purchase accounts instead.

If the entries as posted from Form 3 are analyzed, it will be seen they are equivalent to the Journal entries below—

Dry Goods, Purchases	$ 985.00	
Boots and Shoes, Purchases	1,638.00	
Groceries, Purchases	597.00	
To Accounts Payable		$3,000.00
,, Freight and Duty on Purchases		220.00

In addition to making purchases of goods for sale in one or more departments there may be sundry items of goods chargeable to sundry accounts for

expense, etc., not provided for by separate columns. The necessary columns are introduced in Form 4.

These items must, of course, be posted separately, and space is provided to show the account to be charged. The total of the " Sundries " column is not posted at all. The separate accounts affected have been debited and the total is included in the amount credited to Accounts Payable.

The column " invoice number " introduced with this form may appropriately be shown in any other form, with equal advantage, while a " Freight and Duty " column could be introduced in this form as well as in any other, if desired. The several special features illustrated may be combined in any form desired.

Form 2.

Purchase Book

DATE	CR. ACCOUNT OF	L. F.	AMOUNT OF INVOICE	POSTING TOTALS	DRY GOODS	BOOTS & SHOES	GROCERIES
June 1	H V Taplin & Co		700 00			700 00	
6	"		900 00		300 00	500 00	100 00
12		65	300 00	1900 00	100 00	150 00	50 00
14	R R Whiting & Co		600 00		400 00		200 00
18		72	500 00	1100 00	100 00	200 00	200 00
			3000 00	3000 00	900 00	1550 00	550 00
					L.F. 111	L.F. 122	L.F. 140

Returned Purchases

Should goods that have been purchased be returned to those from whom the purchases were made, the transaction is the reverse of a purchase. *It must not be confused with sales*, but is merely a reduction in purchases.

The records for these will be under the head of Returned Purchases and may be handled in various ways, among which are the following—

(*a*) Rule the Returned Purchases Book in the same form as the Purchase Book and record in it the returns outward. At the end of the month credit Purchases account for the business, or for each department, with the total and debit the persons or firms to whom the goods have been returned.

(*b*) Set apart part of the Purchase Book for recording returned purchases, the posting being done as outlined in (*a*). This is the plan most frequently adopted.

(*c*) Enter returns, *in red ink*, under the footings of the Purchase Book at the end of the month, the net purchases being posted to the Dr. of Purchase account or accounts. The personal accounts are posted in the usual way.

It may be explained that Ledger keepers now discard red ink for Ledger balances and use it only to represent deductions.

Form 3

Purchase Book

Date 19—		Account Credited	Fol.	Amount of Invoice		Freight and Duty		Total		Distribution			
										Dry Goods		Boots and Shoes	Groceries
June	1	H. V. Taplin & Co.	65	700	00	40	00	740	00	440	00	740 00	220 00
,,	4	R. R. Whiting & Co.	72	600	00	60	00	660	00	330	00	540 00	120 00
,,	6	H. V. Taplin & Co.	65	900	00	90	00	990	00	110	00	205 00	205 00
,,	8	R. R. Whiting & Co.	72	500	00	20	00	520	00	105	00	153 00	52 00
,,	12	H. V. Taplin & Co.	65	300	00	10	00	310	00				
				$3,000	00	$220	00	$3,220	00	$985	00	$1,638 00	$597 00
						L.F. 5				L.F. 14		L.F. 22	L.F. 40

Form 4

Purchase Book

Date 19—	No. Invs.	Account Credited	Led. Fol.	Posting Totals	Amount of Invoice	Distribution				Led. Fol.	A/cs *Dr.* for Sundries
						Dry Goods	Boots and Shoes	Groceries	Sundries		
June 1	98	H. V. Taplin & Co.			700 00	300 00	700 00	100 00			
,, 6	99	,,			900 00	100 00	500 00	50 00			
,, 12	100	,,			300 00		150 00		50 00	10	Expense
,, 14	101	,,			50 00						
,, 14	102	R. R. Whiting & Co.	65	1,950 00	600 00	400 00		200 00			
,, 4	103	,,			500 00	100 00	200 00	200 00	70 00	12	Advert'g
,, 8	104	,,			150 00	80 00					
,, 10			72	1,250 00	$3,200 00	$980 00	$1,550 00	$550 00	$120 00		
				$3,200 00		L.F. 14	L.F. 22	L.F. 40			

The Voucher System

This system is intended to apply particularly to the records of purchase transactions.

By its adoption a separate account with each person from whom a purchase is made is avoided entirely, but the total of such balances is shown in Accounts Payable (sometimes termed Vouchers Payable) account in the General Ledger, just as though it were being used as a controlling account for a Purchase Ledger in which individual accounts are kept.

The system possesses several advantages, particularly if payments are made promptly. Many concerns of different kinds have adopted it. It may be adapted to the requirements of practically every line of business.

The term " voucher " is applied to the printed form used in connection with each bill of purchase, and is either attached thereto or refers to it, and contains, in general terms, information regarding the contents of the bill. Space is set apart for the signature of those who examine the bill, vouch for its correctness, and approve it for payment. Should a number of invoices from one firm be due at one time for payment these are sometimes listed on the voucher, being referred to by number, and thus one form is used for, and may be attached to, all. The exact method will be developed by those installing and operating the system.

Vouchers are prepared in a great many different forms, according to the desires or requirements of those adopting the system. Some include the cheque issued in payment as part of it but, since notes or drafts may first be given this is not always the best method. Others make receipt for payment a part of the voucher, and this is desirable. Some prepare the voucher in the form of a folder, there being a blank sheet of the same size as the main voucher on which a carbon copy is taken of the particulars shown on the voucher, this copy being attached to the invoices referred to thereon, the outer copy being filed and presented as a voucher for the payment.

Usually, on the back of a voucher is a printed form showing the accounts to which charges are made, and other particulars.

Illustration 1 shows one form of open voucher, and Illustration 2 shows it as folded. There are, as already pointed out, many modifications of this form. Size will be made to suit requirements.

Illustration 3 shows a form of Voucher Record Book or Register. The headings A, B, C and D refer to accounts to which charges are to be made in the distribution of purchases, and the number of such columns will be determined by the extent to which it is desired to distribute the charges through the use of special columns. Further provision is made for charging to Sundry accounts such amounts as are not provided for by special columns. The total of all amounts is posted at stated periods of the day, week or month, to the credit of Accounts (or Vouchers) Payable, which represents the whole amount of such accounts. Columns may, with advantage, be added for " terms," and the forms further modified as desired. The headings for accounts shown as A, B, etc., will vary with the nature of the business. A manufacturing concern might have these as Material, Direct Labour, Overhead Expenses (classified by use of several columns), Selling Expenses

(also classified by use of several columns), Administrative Expenses (likewise classified), etc., while a wholesale Trading concern will make the distribution along the line of various classes of purchases of stock-in-trade, etc.

As the payments are made the entry in the Cash Book is posted to the debit of Accounts Payable, while a memo. is put in the Voucher Record Book so that those paid and unpaid are easily distinguished. The form could be further modified by having the Accounts Payable column before the distribution with another money column before it, so that if we pay the accounts on a certain day each month we may defer writing them up until then and put all the invoices from one concern together, the separate amounts being entered in the first column and the total representing the amount to be paid shown in the second.

The Voucher Cheque is now quite extensively used and consists of a cheque with a statement form attached, which refers to the invoices covered by the payment. While the endorsed cheque is very often accepted as a voucher, the fact must not be overlooked that, from the accountant's point of view, this vouches the payment only, and the propriety of expenditure must be verified as well, and such a cheque or voucher form takes one back to the specific items.

The voucher cheque has much to commend it if this is kept in mind. Form 4 illustrates a form of voucher cheque.

To this may be attached a form of the same size, on one side of which are similar spaces for Date of Invoice, Amount, etc., and on the other, space and columns for analysis of the payments among various Ledger accounts, list of items affecting operating expenses, etc., and

No..... C.B.....
V.R.....
Name .....
Month.....
Amount $.....

This part is divided from that given in Form 4 by a perforation.

Form 1

Voucher No.....
Date.....

Toronto, Ont..... 19..

The Boswell Foundry Co.

To.....

Date	Particulars	Amount	Total

Correct.....

Approved.....

Received from the Boswell Foundry Co., Ltd.

the sum of.....Dollars..

Date.....19..

LOOSE LEAF

December,

Ledger Folio	Date	Sheet No.	Name	Address	Amount	Dept. A	Dept. B	Dept. C	Dept. D	Dept. E
117	June 3	3769	T. Smith	Kitchener	187 34			85 00		
196	,, 3	3770	B. Tisdal	Chatham	100 00	100 00				
479	,, 3	3771	J. Aitken	Hamilton	764 00	300 00	100 00		20 00	220 00
480	,, 4	3772	R. Greer	Ottawa	426 18			426 18		
216	,, 4	3773	A. Wells	London	17 65					
376	,, 4	3774	W. Oldham	Toronto	762 17		429 00	230 00	100 17	3 00
						Cr. Dept A	*Cr.* Dept B	*Cr.* Dept C	*Cr.* Dept D	*Cr.* Dept E
				TOTAL	$2,257 34	$400 00	$529 00	$741 18	$120 17	$223 00

Total of Departments and Merchandise Sales equals total Sales.
An automatic check on additions.

NOTE: A separate column may be provided beside that for "Merchandise any freight and express charges that have been prepaid and charged in the account, this account is now credited with that charged to customers as

SALES JOURNAL

19—

Mdse. Sale	D. Brown Salesman No. 1	W. White Salesman No. 2	T. Black Salesman No. 3	T. Green Salesman No. 4	D. Grey Salesman No. 5	P. Dean Salesman No. 6	House Sales
102 34	187 34			100 00			
124 00				764 00			
						426 18	
17 65					17 65		
							762 17
Credit Sales A/c							
$243 99	$187 34			$864 00	$17 65	$426 18	$762 17

Total of Salesmen's columns and House Sales equals total Sales.
An automatic check on additions.

Sales," for " Freight," or " Freight and Express *Cr.*," in which is entered invoice. The freight, when paid, having been charged to " Prepaid Freight " represented by the total of the " Freight *Cr.*" Column.

Form 2

Voucher No.....

Date.....

Name.....

How Paid.....

Amount.....

Form 3 *Voucher Record*

Date	Vo. No.	Name	Description	A	B	C	D	Accounts Payable	Sundry A/cs			When & how paid		
									Name	L.F.	Amount	Date	Cheq. No.	Amount
19— June 12	60	H. V. Taplin		100 00	150 00	50 00		300 00						
,, 15		R. R. Whiting		80 00				150 00	Adv.	12	70 00	July 12	86	300 00

Form 4

CANADIAN WHOLESALE TRADING COMPANY, Limited.

Toronto, Ont.....19—. No. 980

Pay to the order of.....

.....Dollars $.....

.....

To the Excelsior Bank, Toronto, Ont. President.

.....

Secretary.

Date of Invce.		Amount	Date of Invce.		Amount

Correct. Approved for payment.

....

Accountant.

From the explanation given, it will be observed that the system is best adapted for a business that pays invoices in full at regular intervals. Otherwise, there are some disadvantages; e.g.—

1. There is no continuous record of transactions with any one supply house but, when an Accounts Payable Ledger is kept, the entries in the accounts should give direct reference to all the invoices received from each firm.

2. If the purchases are numerous and heavy, and if invoices are only partly paid, the balances are hard to detect and pages of the register may have to be covered in verifying the Trial Balance.

3. If purchases (such as clothing and dry goods) are made on long terms it is very inconvenient to keep pages—months old—of the register open.

Another Voucher Method

Another method is extensively employed by companies or firms who pay cash; i.e. settle monthly or half-monthly.

A voucher form is used that bears the same consecutive numbers as the cheques. The invoices being paid are attached to the voucher and listed and totalled thereon. In large offices the distribution of the cheques is recorded on the voucher form and the distribution in the Cash Book is then a simple operation. These vouchers are indexed so that the invoices may be located when required.

Under this method there is no Accounts Payable as a liability account in the General Ledger.

Cash Purchases Only, Recorded

Another method sometimes used, but not to be recommended, consists of treating all purchases as cash purchases. The only record made is that in the Cash Book, the items being entered in special columns such as, Purchases, Expenses, etc.

Adjustments must be made in the various accounts in order to write up a correct Trading and Profit and Loss account.

Thus, suppose the Balance Sheet on December 31, 1939, showed a liability of $4,000.00 for Accounts Payable for Merchandise purchased during 1939, but unpaid on December 31, 1939, also suppose the Cash disbursements for Purchases during the year 1940 amounted to $17,000.00, and that on December 31, 1940, Accounts Payable for merchandise purchased during the year 1940 and unpaid on December 31, 1940, amounted to $5,000.00, the amount of the Purchases chargeable to the 1940 Trading account would be calculated as follows—

Purchase, Disbursements during the year	$17,000.00
Deduct:	
Purchases for 1939 included in above	4,000.00
Add:	$13,000.00
Purchases for 1940 not yet paid	5,000.00
Purchases for the year 1940	$18,000.00

Examples of Possible Sales Book for Wholesale Business

The form illustrated on pages 8 and 9 is based on the assumption that a wholesale firm desires to show, in as concise form as possible, not only the total sales but the sales from each department, where there are several, and at the same time the amount of business secured by each traveller, of whom also there is a number.

The column for Amount will show the total sales. The total of all columns for departments and general merchandise must equal the total as shown by the amount of the Sales column, which thus acts as an automatic check on additions.

The total of all columns for travellers and house sales must also agree with the total of Sales, which thus again acts as a check.

The total of each column for departments and general merchandise will be posted to the credit of Sales account for each so that separate Trading accounts may be prepared.

The total monthly sales by each traveller will be recorded in a summary book for the purpose, from which the respective yearly amounts may be determined.

This form may be modified, as desired, to meet special requirements. Thus, if it is desired that the cost of sales be recorded, additional columns would be used to any extent necessary.

This is shown only to illustrate further the fact that one set of forms cannot be used for different concerns, but that those for each must be devised to meet the individual requirements.

Self-Balancing Ledgers

In Lesson 15 the system of Controlling accounts was explained and a reference made to Self-balancing Ledgers. Should it be desired to make each Ledger self-balancing within itself, in both Sales and Purchase Ledger an account would have to be opened purely for adjustment purposes, so that all amounts posted to the individual accounts in these Ledgers may be posted in total to the other side of the Adjustment account, and thus keep the Ledger in balance.

If it is desired to operate this, the procedure would be as follows—

PURCHASE BOOK

Post each item to the credit of the creditors' account in the Purchase or Accounts Payable Ledger, and the total to the debit of General Ledger Adjustment account in the Purchase Ledger. Bring this total into the General Ledger by the same entry as already explained—

Purchases *Dr.*
To Accounts Payable

SALES BOOK

Post the individual items to the debits of their accounts in the Accounts Receivable Ledger and the total to the credit of the General Ledger

Adjustment account in the same Ledger. The entry to bring the amount into the General Ledger will be—

Accounts Receivable *Dr.*
To Sales

BILLS PAYABLE BOOK

Post the individual amounts to the debit of the accounts affected in the Purchase or Accounts Payable Ledger and the total to the credit of the General Ledger Adjustment account in that Ledger. Bring into the General Ledger by the entry—

Accounts Payable *Dr.*
To Bills Payable

BILLS RECEIVABLE BOOK

Post the individual items to the credit of the accounts affected in the Sales Ledger and the total to the debit of the General Ledger Adjustment account in that Ledger. Bring into the General Ledger by the entry—

Bills Receivable *Dr.*
To Accounts Receivable

CASH BOOK

Post the total of the Sales Ledger column to the debit of General Ledger Adjustment account in the Sales Ledger as well as to Accounts Receivable in the General Ledger.

Post the total of the Purchase Ledger column to the credit of the General Ledger Adjustment account in the Purchase Ledger as well as to the debit of Accounts Payable in the General Ledger.

From the above it will be observed that the Adjustment accounts will have exactly the same balances as the corresponding Controlling accounts, but on the opposite side, and that each Ledger balances independently of any other. This involves a little more work and, in practice, the system of Controlling accounts, as outlined already, is quite often all that is used, but the above explanation explains the further details if one would have what may be properly termed self-balancing Ledgers, and this whole system is also used still to a considerable extent. Each ledger keeper can then balance his own Ledger.

ADJUSTMENTS BETWEEN LEDGERS

Suppose a creditor with a credit balance in his account buys goods from the firm, and instead of paying for them wishes to have the amount at his credit applied to cover. There are two accounts for him, one in the Purchase Ledger and one in the Sales Ledger, for this sale must go through in the usual way. The question now is: How may his balance be transferred from the Purchase Ledger to the Sales Ledger? Neither Purchases nor Sales will be affected, for the entry has gone through these and will remain.

If there are Adjustment accounts the entries may be as follows—

For the Purchase Ledger, charge creditor's account and credit Adjustment account.

In the Sales Ledger, charge Adjustment account and credit the personal account.

In the General Ledger, charge Accounts Payable and credit Accounts Receivable.

If the adjustment accounts are not kept the creditor's account will be changed in the Purchase Ledger and his account credited in the Sales Ledger, making the same entry for the General Ledger as already explained. If there are many of these or similar adjustments to make there may be a Journal with three money columns on each side, as illustrated in Lesson 15, the particulars being written in the centre, these three money columns being for each of the three Ledgers. If the Sales Ledger is subdivided there would be more. In this way Journal entries are made affecting the different Ledgers and the amounts are in their proper columns, just as in the Cash Book.

> "The law of worthy life is fundamentally the law of strife; it is only through labour and effort, by grim energy and resolute courage that we move on to better things."
>
> THEODORE ROOSEVELT.

EXAMINATION QUESTIONS

Lesson 21

1. A wholesale firm intends to deposit all cash received and pay by cheque only. It is not the intention to keep Ledger accounts with creditors. Name the Books of Account you would need for all purposes. Describe in detail the method you would adopt for recording purchases.

2. At the end of three months, on listing the unpaid Bills Payable, as shown by the Bills Payable Book, you find that the total of the list does not agree with the balance as called for by the General Ledger. Explain what you would do to locate this difference, it being understood that the Bills Payable were in balance at the beginning of the period.

3. A country store keeps its purchases and sales divided into five departments. The Company keeps a Purchase Ledger in which accounts are kept with all concerns from whom it buys, whether for merchandise, expense or plant. It is very necessary that all freight and duty charges shall be included as part of the cost against the items to which they belong.

   Rule up and explain a Purchase Journal for entering all invoices to suit the requirements of this Company. The object of this book is to facilitate the finding of the profit or loss of each department. State briefly what other information is necessary to attain this result.

4. *Note.* For the sake of uniformity in answers, students are requested to use the following columns with Cash Book—

   Debit or Received Side—

   Sundries, Sales Ledger A to L, Sales Ledger M to Z, Disc. Dr.

   Bank Interest and Exchange, Cash Sales, Cash Dr., Bank Dr.

   Credit or Paid out Side—

   Sundries, Purchase Ledger, Cash Discount Cr., Sales Ledger A to L, Sales Ledger M to Z, Bills Payable, Freight and Duty on Purchases, General Expense, Cash Cr., Bank Cr.

   Keep the Bank account in the Cash Book. The opening balance was $572.20 at the credit of the Company.

   The following are the cash and bank transactions of The Arabela Manufacturing Co., Limited, for an accounting period—

   Received from A. Brantford, cheque, $28.44; discount allowed, 56 cents; from O. Markham, cheque, $48.51, discount allowed, 49 cents; from cash sales, $28.90; from old boiler sold, $20.00. Deposited foregoing, less exchange deducted by bank, 30 cents.

   Discounted Bills Receivable amounting to $649.80; bank deducts $8.80 for interest and exchange.

   Drew cheques as follows: Petty Cash, $32.70 ($25.00 Expense, $7.70 Freight on Purchases); Bristol Co., $17.25; discount earned,

35 cents; Duty on Purchases, $27.70; Duty on New Machinery for factory, $88.00; Travelling Expenses, $35.00; Contribution to Patriotic Fund, $25.00.

Received from G. Windsor, $127.60; from sale of waste, $30.00; from A. Brockville, $455.43; discount allowed, $1.57; from C. London, $50.00; from James Woodstock, $375.00; from 49 shares preference stock sold, $4,900.00; from James Wingham, $22.20; from cash sales, $20.00. Made deposits: $157.60, $880.28, and $4,942.05; exchange of 15 cents has already been deducted from each of the last two deposits.

Drew cheques as follows: Company's note, $2,500.00; Wages, Factory, $198.37; Wages, Office, $40.00; Rent, $70.00; Petty Cash (General Expense), $48.00; Duty on Purchases, $110.00; Dividend, $1,200.00; S. Brown & Co., $74.25, Discount earned, 75 cents; J. P. L. Davis Co., $28.28; James Eagle Co., $128.20; James Wingham, overpaid Sales Ledger account, $10.00.

The Bank charges the account with $1.25 for a telegram to Vancouver re cheque unpaid, and also with Bills Payable, maturing, of $287.50, $143.14 and $88.18; customers' notes returned unpaid as follows: A. Brown, $48.00; J. Smith, $70.00; A. Dash, $20.00; A. Jones, $77.00. Company's Note for $6,000.00 paid at the bank and a new note discounted for $5,000.00. The Bank credits the account with proceeds, $4,957.50.

(*a*) Design and write up the Cash Book necessary to record the above transactions and rule off the same at the end of a period. Controlling accounts are kept for all sub-ledgers, and in the case of the Sales Ledgers, two Controlling accounts are kept—one A to L, and the other M to Z. Unless otherwise stated, receipts are for Sales Ledger accounts, and payments for Purchase Ledger accounts.

(*b*) The net sales for period were as follows: A to L Ledger $800.00, M to Z Ledger $900.00, and the balances of the Ledgers at the first of the period were, A to L Ledger $4,000.00, and M to Z Ledger $3,000.00. Give the Balances of the Sales Ledgers at the end of the period.

5. The Balance Sheet of The General Store Co., Limited (which does a cash business), at January 31, 1939, was as follows—

Liabilities		*Assets*		
Accounts and Bills Payable —Merchandise	$ 7,500.00	Cash on Hand and in Bank		$ 4,350.00
Profit and Loss account	20,200.00	Unearned Insurance		125.00
Capital Stock—Paid up	20,000.00	Merchandise		36,775.00
		Furniture and Fixtures	$7,250.00	
		Less : Reserve for Depreciation	800.00	6,450.00
	$47,700.00			$47,700.00

Cash Receipts and Disbursements for the year ending January 31, 1940, were as follows—

Receipts

Cash, etc., January 31, 1939	$ 4,350.00
Cash Sales—Net	110,787.20
Bills Payable—Bank	20,000.00
Capital Stock—Sold	5,000.00
Rebates—General Expense	207.34
Rebates—Purchases	322.50
	$140,667.04

Disbursements

Purchases (*less* Discounts $1,322.27)	$ 92,782.75
Salaries and Wages	12,287.20
Rent and Taxes	3,300.00
Insurance	475.00
Advertising	1,272.20
Interest	227.70
General Expense	2,151.67
Furniture and Fixtures	225.00
Dividend	4,000.00
Bills Payable—Bank	20,000.00
Cash, etc., January 31, 1940	3,945.52
	$140,667.04

Inventory Merchandise, January 31, 1940	$ 50,281.61
Accounts and Bills Payable, January 31, 1940 (Merch.)	8,662.60
Unearned Insurance, January 31, 1940	100.00
Depreciation on Furniture and Fixtures for year	650.00

(*a*) Prepare the Trading and Profit and Loss accounts for the year and the Balance Sheet as at January 31, 1940.

(*b*) Prepare a Statement showing the percentages of Gross Profit, Expenses, etc., to Sales.

ACCOUNTING

GENERAL COURSE

Lesson 22

Shipments and Consignments

VERY often a merchant doing a regular trading business will, in connection with it, receive from wholesalers and manufacturers shipments of goods to be sold by him for them on commission. He thus devotes the facilities he has established to rendering a special service to those firms, who are thus enabled to dispose of possible surplus stocks to advantage and, at the same time, he receives revenue, by way of commission, in return for those services, thus using his establishment to his own advantage.

Likewise, men or business concerns frequently buy goods and ship them to agents who sell them and receive a certain percentage for their services.

The person shipping goods in this way is doing what is known as a shipping business, and may be termed a *shipping merchant.* Each lot of goods shipped or consigned to an agent is a *shipment.*

The agent, or person, who sells goods consigned to him for a commission is a *commission merchant,* and each lot of goods he thus receives is, to him, a *consignment.*

The person who makes the shipment or consigns the goods to the other is known as the *consignor,* and he to whom they are shipped or consigned is the *consignee.* The consignor *sends* the goods and the consignee *receives* them.

Although the consignor sends the goods to the commission merchant they are still the property of the consignor. He does not sell them to the consignee. He will not, therefore, charge the consignee with them when he makes the shipment. The commission merchant is liable for the proceeds when he sells the goods, and it is then he must be charged. After the consignee has disposed of the goods he renders a statement to the consignor showing proceeds from sales, charges paid, commission charges and any other charges. This statement is called an *Account Sales* and shows the amount due the consignor.

As the consignor receives advices from the consignee he credits the shipment with the sales and debits it with the charges, so that each shipment will show a profit or a loss as a unit distinct from other transactions. Study carefully the illustrations and explanations that follow.

Books of Consignor

The consignor opens a separate account in his Ledger for each shipment and in order that each may be kept distinct from other shipments the name

of the person to whom the shipment is sent may be annexed to the account title, with the number of the shipment to that person; e.g. Shipment to R. H. Thompson, No. 8; Shipment to H. Wales, No. 9, etc.

SHIPMENT TO— No. ....

Debit with—	Credit with—
Cost of goods shipped	Cost of goods returned
Expenses paid by us	Amount of Sales
Commission to consignee	
Expenses paid by consignee	

The above outline explains what is expected to be found in an account for a shipment. The next thing to consider is the entries required.

Should there be but occasional shipments a special book may not be necessary, and the Journal will suffice to record the shipment. Suppose the shipment is No. 1, to T. J. Woods, and consists of—

12 crates strawberries containing 36 boxes each, costing 8 cents, and 20 crates raspberries, containing 24 boxes each, costing 12 cents, and that express, $1.50, has been paid.

To record the shipment the Journal entry would be—

June 8.	Shipment to T. J. Woods, No. 1		92.16	
	To Goods Shipped on Consignment			92.16
	Shipped to be sold on our account and risk, 12/36 crates Strawberries @ 8 cents	$34.56		
	20/24 crates Raspberries @ 12 cents	57.60		
		$92.16		

The entry for the express paid will be made in the paid-out side of the Cash Book and posted to the debit of the Shipment account.

An invoice is sent at the time of the shipment.

Invoice of Shipment

Invoice of Goods shipped per XYZ Express Company, on 8th June, 19.., consigned to T. J. Woods, London, Ont., to be sold on account of Consignor.

	12/36 Crates Strawberries @ 8 cents	$34	56		
	20/24 ,, Raspberries @ 12 cents	57	60		
	Express Paid	1	50	$93	66
	Student & Co., Consignors				
	E. & O. E.				

It will be observed that Sales account has not been credited because the goods are not sold, but merely transferred to another place. Credit can be made to the Inventory account (Stock) or to Purchases, or a special account may be opened for " Goods Shipped on Consignment." This account shows the total cost of goods so shipped and when closing the books it is closed to the credit of Trading account or deducted from the total of goods in the same way as the Stock or Inventory account.

Goods Shipped on Consignment $———
To Trading account $———

to close the account.

Should there be a number of shipments a special book called Shipments Book, in much the same form as a simple Sales Book, should be used, the shipments being recorded in order and each posted to the debit of its account in the Ledger. The total of the book is from time to time posted to the credit of " Goods Shipped on Consignment " account.

Shipment Book

Date		Consignee and Particulars	L.F.			Amount	
19—							
June	8	Shipment to T. J. Woods, London, Ont.—No. 1	16				
		12/36 Crates Strawberries @ 8 cents		$34	56		
		20/24 ,, Raspberries @ 12 cents		57	60	$92	16
		XYZ Express, Paid $1.50					
June	14	Shipment to R. Peters—No. 2	24				
		10 Barrels Potatoes, $4.00		40	00		
		16/32 Crates Strawberries @ 6 cents		30	72	70	72
		XYZ Express, Paid $2.40					
June	30	Shipment to P. Weston—No. 3 (Particulars)	36			80	00
		To Goods Shipped on Consignment	98			$242	88

On June 12 advice is received from the consignee that the goods have arrived and he has paid charges $1.00.

Journal entry to record this—

Shipment to T. J. Woods No. 1 $1.00
To T. J. Woods $1.00

to record charges paid by consignee.

On June 15 advice is received that the strawberries have been sold at 10 cents per box (commission 5 per cent).

Entry—

T. J. Woods $43.20
To Shipment to T. J. Woods No. 1 $43.20

charging with sale as per advice No. —

Shipment to T. J. Woods No. 1	$2.16	
To T. J. Woods		$2.16
Commission on sale of $43.20 @ 5%		

On June 17 advice is received that the balance of the shipment, consisting of raspberries, has been sold at 17 cents. Storage charged is $2.00.

T. J. Woods	$81.60	
To Shipment to T. J. Woods No. 1		$81.60

charging sales on account of consignor as per advice of this date.

Shipment to T. J. Woods No. 1	$4.08	
To T. J. Woods		$4.08
Commission at 5% on sale of $81.60.		
Shipment to T. J. Woods No. 1	$2.00	
To T. J. Woods		$2.00

storage charged on shipment as per advice of this date.

On June 20 Account Sales is received from T. J. Woods for Shipment No. 1 and also a remittance, for the amount due, by Bank Draft.

Account Sales

Messrs. Student & Co.,
Toronto, Ont.

London, June 19, 19—

Below please find account of sales by T. J. Woods of 12 crates of strawberries and 20 crates raspberries received June 10, 19—, via XYZ Express, and sold for Student & Co. on their account and risk, on a commission of 5 per cent.

19—						
		SALES				
June	15	12/36 Crates Strawberries @ 10 cents	$43	20		
,,	17	20/24 ,, Raspberries @ 17 cents	81	60	$124	80
		CHARGES				
		Delivery $1.00 Storage $2.00 Commission $6.24			9	24
		Net Proceeds			$115	56
		Remitted Net Proceeds by Bank Draft				
		E. & O. E.				

The remittance received, $115.56, is recorded in the received side of the Cash Book and posted to the credit of T. J. Woods' account in the Ledger. The shipment may be closed to Profit and Loss as an item of profit apart from local trading, or, if there are a number of shipments they may be all closed into an account for

" Profit and Loss on Shipments,"

and this closed out to Profit and Loss to show the result of all in one amount.

As only one shipment has been dealt with the entry is—

Shipment to T. J. Woods, No. 1 $21.90
To Profit and Loss $21.90

to close out shipment after all sales and charges are recorded.

Dr. Shipment to T. J. Woods No. 1. Cr.

19-						19-					
June 8	Sal	1			92 16	June 15	J	1			43 20
" 8	C	2			1 50	" 17	J	1			81 60
" 12	J	1			1 00						
" 15	J	1			2 16						
" 17	J	1			4 08						
" 17	J	1			2 00						
" 20	Profit & Loss				21 90						
					124 80						124 80

T. J. Woods

19-						19-					
June 15	J	1			43 20	June 12	J	1			1 00
" 17	J	1			81 60	" 15	J	1			2 16
						" 17	J	1			4 08
						" 17	J	1			2 00
						" 19	C	1			11 56
					124 80						124 80

Goods Shipped on Consignment

						June 8	Sh B	1			92 16

This account, at the end of the year, is closed out to Trading account as explained on page 3.

Shipments Not Completely Sold at End of Year

If many shipments are made it is likely that some one or more will not be completely disposed of when the books are closed at the end of the year. It is just as well not to take credit for any profit before it is finally closed out, so the account balance will appear in the Balance Sheet as an asset, or, if there are a number, the total of the balances will appear as one asset under "Shipments" or "Goods Shipped on Consignment."

Should a loss be foreseen, a reserve should be created to provide for it—

Profit and Loss
To Reserve for Loss on Shipments

When closing out, the Reserve might be closed into the Shipment account affected.

AN ALTERNATIVE METHOD

In the examples given, only the Profit or Loss on a shipment has been closed out to Profit and Loss account.

Suppose, however, that the management wish the Trading account to receive credit for all sales made, whether locally or otherwise, how may this be accomplished?

The total sales at the credit of Shipment accounts can be closed to the credit of Trading account, and the total expenses on the debit side of a Shipment account closed to the debit of Profit and Loss, as selling expenses.

In the above example, if this method is followed, the accounts being prepared as already shown, the shipment will not be closed to Profit and Loss, but Journal entries made as follows—

Shipment to T. J. Woods No. 1	$124.80	
To Trading Account		$124.80

to transfer sales on shipment.

Trading account	$ 92.16	
Profit and Loss	10.74	
To Shipment to T. J. Woods No. 1		$102.90

to transfer the selling expenses of shipment sales to Profit and Loss and the cost of goods shipped to the debit of Trading account.

Books of Consignee

CONSIGNMENT REGISTER

In order that a record may be had of each consignment, from the time it is received, the consignee keeps a Receiving Book in which, on receipt of the consignment, particulars as to what it consists of are recorded. This is called a Consignment Register or Receiving Book.

If freight is paid on the consignment, or other expenses paid, an entry is made in the paid-out side of the Cash Book, and the amount posted to the debit of the Consignment account.

No posting need be made from the Consignment Register unless all freight payments are charged to freight account, in which case it is possible to record the amount in the register against each consignment and post to the account, the totals being posted to the credit of Freight account. The only advantage of this method is that the whole particulars, including freight paid, are recorded in the register.

Different Methods Explained

SPECIAL FORM OF SALES BOOK:

1ST METHOD—CONSIGNMENT AND OTHER ACCOUNTS TOGETHER IN ONE LEDGER

Assuming that the consignee has goods of his own for sale as well as those consigned to him, his Sales Book must be provided with columns to distinguish Consignment Sales from Merchandise Sales. Some sales to customers

may be made up of goods from one or more consignments and from his own merchandise as well. The customer is charged with the full amount, each consignment credited with the amount realized on its account, while the total of Merchandise Sales column is posted to the credit of Sales account as usual.

Date			Cons. No.	Folio Cr. Cons.	Folio Dr. A/c	Total	Cons. Sales	Mdse. Sales
19— June	15	W. H. Lee						
		12/36 Crates Strawberries, 10c.	1	40		$ 43 20	43 20	
		50/32 ,, ,, 10c.				160 00		160 00
					60	$203 20		
,,	17	J. J. Shier						
		20/24 Crates Raspberries, 17c.	1	40		81 60	81 60	
		30/32 ,, ,, 17c.				122 40		122 40
					80	$204 00		
		Cr. Sales Account			140			$282 40

In the above form two folio columns are used, one for the Consignment Cr. and one for other accounts, the effect on the entries affecting consignments being the equivalent to a Journal entry; e.g.—

W. H. Lee *Dr.*	$43.20	
To Consignment No. 1		$43.20

The total of the sale (e.g. $203.20) is charged to the customer and at the end of a period Sales account is credited with the amount sold from the consignee's own stock.

2nd Method—One Consignment Account in Ledger Only

Another system that is found satisfactory is that of keeping one Consignment account only. To this account are credited all sales from consignments and it is debited with charges affecting all consignments. No accounts for the individual consignments are kept in the Ledger, but the Account Sales is built up as entries are made and the second folio column records the number of the consignment. A folio mark may be added to refer to the loose leaf sheet on which the entry has been made on the Account Sales.

The customer is, as in method No. 1, charged with the total of each sale and the totals of Consignment Sales and Merchandise columns are posted to the credit of Consignment account and Sales account respectively.

The account for consignments shows the total balance of all consignment statements, and these should be checked regularly with it.

3rd Method—Controlling Accounts—Separate Ledgers

This is the most complete and satisfactory in respect to the records being all within the books.

The Sales Book will have, as illustrated, separate columns for Consignment and Merchandise Sales.

A separate Consignment Ledger is kept and in it is an account for each consignment.

A controlling account for the Consignment Ledger is opened in the General Ledger.

It is assumed that an Accounts Receivable Controlling account is kept in the General Ledger.

Procedure

The amount of each sale on account is debited to the customer in the Sales or Accounts Receivable Ledger and is also posted to the credit of the proper account in the Consignment Ledger.

The totals are brought into the General Ledger by the Journal entry—

Accounts Receivable *Dr.*
To Consignments *Cr.*
,, Merchandise Sales *Cr.*

Sales Book (on Account)

Date			Cons. No.	L. F.	Total	Cons. Sales	Mdse. Sales
19—							
June	15	W. H. Lee					
		12/36 Crates Strawberries, 10c.	1	C. L. 80	43 20	43 20	
		50/32 ,, ,, 10c.			160 00		160 00
				A. R. 90	$203 20		
	17	J. J. Shier					
		20/24 Crates Raspberries, 17c.	1	C. L. 80	81 60	81 60	
		30/32 ,, ,, 17c.		A. R. 90	122 40		122 40
					$204 00		
						$124 80	$282 40
		Accounts Receivable $407.20					
		To Consignment Sales $124.80					
		,, Merchandise Sales 282.40					

Cash Sales Book

The cash sales being entered in this book, ruled in the same way as the book for credit sales, the columns being added and ruled off daily, the

amount of cash sales from consignments, and from stock, can be readily determined each day and these totals recorded in the Cash Book, to be posted to the credit of Consignments Sales and Sales accounts respectively. The amount to the credit of each consignment may thus be posted from this book, and only one entry in the Cash Book is necessary for each day. It is desirable that a definite record be kept of goods taken from each consignment in this way.

If a separate Cash Sales Book is not kept, an entry in the Cash Book will be necessary for the sales from each consignment, the total being posted to the credit of the controlling account for Consignment Sales.

Settlement

When proceeds, less charges, are remitted, entry is made in the Cash Book and posted to the debit of the Consignment account affected in the Consignment Ledger, the total of the column for this Ledger being debited to the controlling account in the General Ledger.

(If the Consignment and other accounts are all kept in one Ledger the amounts paid in settlements are charged to the accounts affected.)

Should only one account be opened for consignments, and the individual statements not be in the books, it is obvious that the Consignments account acts as a controlling account, in the sense that the balances of the Account Sales for all consignments, as far as built up, should agree with the balance in this account; so, while the amounts paid in settlements are posted to Consignments account, a record is made on the Account Sales sheet and some notation to indicate this is desirable in the Cash Book.

The Cash Book

The form of the Cash Book is, as always, determined by what is required to record properly the cash transactions, while conforming with the system in general. If a number of consignments are being handled, and a controlling account for these and another for Accounts Receivable opened, special columns are required on the credit side for Consignment Ledger, or to record payments made to cover charges, or in settlement, and so chargeable to the several consignments, and it may be found desirable to keep a special column on the debit side for Consignment Sales, as well as one for Accounts Receivable Ledger.

Where shipments are numerous and a Shipment Ledger is required, a special column on each side of the Cash Book for Shipment Ledger is necessary, that on the credit side, recording charges paid on shipments, to be posted to the debit, and that on the debit side, to record cash received in settlement, to be posted to the credit of various shipments, and the total to the credit of the Shipment Ledger Controlling account.

Other columns for Bank, Discount, General Ledger, etc., will be used as usual.

If the entries in the books of the consignee were made in Journal form, they would appear as under—

19—				
June 12.	Consignment from Student & Co. No. 1		$ 1.00	
	To Cash			1.00
„ 15.	Cash (or Accounts Receivable)		43.20	
	To Consignment from Student & Co. No. 1			43.20
	Consignment from Student & Co. No. 1		2.16	
	To Commission			2.16
„ 17.	Cash (or Accounts Receivable)		81.60	
	To Consignment from Student & Co. No. 1			81.60
	Consignment from Student & Co. No. 1		4.08	
	To Commission			4.08
	Consignment from Student & Co. No. 1		2.00	
	To Storage			2.00
„ 20.	Consignment from Student & Co. No. 1		115.56	
	To Cash			115.56

"There is not an hour of life but is trembling with destinies—not a moment of which, once past, the appointed work can ever be done again, or the neglected blow struck on the cold iron."—RUSKIN.

EXAMINATION QUESTIONS

Lesson 22

1. The following are the totals of the transactions for the month of December, 19—, of Jones & Robinson, Limited, Cement Manufacturers—

Cash Sales		$10,847.50
Cash received on account		30,519.80
Cash paid for the following—		
Repairs to Plant		325.00
Office Salaries		625.00
Wages		1,897.50
Deposited in Bank		8,500.00
Paid by cheque—		
Sundry Factory Expenses		114.80
Factory Rent		2,000.00
Management Salary		1,500.00
Office Supplies		85.20
Freight and Duty on Material		827.75
Travellers' Salaries and Expenses		4,718.50
Accounts Payable		31,500.00
Cash withdrawn from Bank		300.00
Cash Discount received		75.00
Cash Discount given		107.50
Bills Receivable sent to the Bank for collection		7,250.00
Discounted their own Note at Bank		3,000.00
Bank Charges on Note discounted		32.60
Bills Receivable at Bank for collection, matured and paid		2,500.00
Collection Charges		3.25
Bills Receivable, matured and not paid		800.00
Cash on Hand, December 1	$ 347.50	
Cash in Bank, December 1	1,529.12	
Cheques issued in December not cashed till January	12,847.50	
Deposit in Bank made December 31, and not entered in books till January 2	5,900.00	

(*a*) Rule a suitable Columnar Cash Book and make the necessary entries for the above.

(*b*) Make a Bank Reconciliation account, showing the amount in the Bank on December 31.

2. On May 1, 19—, A shipped a consignment of 400 bags of potatoes from his own stock, costing $1.25 per bag, to B, to be sold on account and risk of A on a commission of 5 per cent. A paid freight $40. On May 15 B advises the sale of one-quarter of the shipment at $1.50 per bag. On June 1 he reports a further sale of 150 bags at $2.00 per bag, and remits $300.00 on account. On July 1 he reports having sold the balance at $1.60 per bag. He charges $10.00 storage and

$8.00 insurance. On this date he renders an Account Sales and remits the balance due to A.

(*a*) Record the above in A's books (Journal and Ledger).

(*b*) Record the above in B's books (Journal and Ledger).

(*c*) Prepare the Account Sales referred to.

3 John Baker of Toronto had the following transaction with R. N. Avery of Liverpool, England. Record them in Mr. Baker's books. Where a standard rate of exchange is to be used it may be taken at $4.88 to the pound sterling.

19—

April 1. Received from R. N. Avery goods invoiced at £2,000 10s.

,, 15. Remitted to R. N. Avery Bill of Exchange £1,000, the rate of exchange being $4.80.

,, 20. Received from R. N. Avery goods invoiced at £3,000.

,, 30. Accepted R. N. Avery's draft for £2,000.

May 30. Paid R. N. Avery's draft of 30th ult. Exchange rate $4.76.

June 15. Remitted R. N. Avery £1,500 less a cash discount of £20. Exchange rate $4.87.

The books were closed on June 30, at which date the exchange rate was $4.80.

ACCOUNTING

GENERAL COURSE

Lesson 23

Amalgamation of Companies

General Explanation

By this is meant that two or more Joint Stock Companies are combined into one. This is usually accomplished by a new company being formed which then buys out the companies that are being amalgamated. Since the entries necessary when a sole trader or partnership business is purchased by a company have been explained already, these will not present a real difficulty.

Procedure

The first step towards amalgamation is that the directors of the amalgamating companies discuss the terms of the proposed amalgamation together and draw up an agreement accordingly. This agreement is entered into, subject to ratification by the shareholders

Separate meetings of the shareholders of the different companies are next held and the agreement is submitted to each meeting. A vote of the shareholders is taken and, to be sufficient, there must be a two-thirds majority of the votes of all the shareholders of each company in favour of it, which fact is then certified upon the agreement by the secretary of each of the companies, under its seal.

The companies then present a joint petition, or application for a charter for the new company, and when this is granted the amalgamation is completed. (Ontario, other Provinces and the Dominion are much the same in procedure.)

Entries Illustrated

Example 1. The A Co. Limited, and The B Co. Limited, whose balance sheets are given on page 2, amalgamate as The A. B. Co. Limited. The shareholders of each company accept shares in The A. B. Co., Limited, in exchange for their present shares, at par. The assets and liabilities are taken as stated.

(*a*) Raise entries, in Journal form, to close the books of the A Co., Limited.

(*b*) Raise entries, in Journal form, to open the books of the A. B. Co., Limited.

(*c*) Prepare the opening Balance Sheet of The A. B. Co., Limited.

The A Co., Limited

Assets		*Liabilities*	
Cash	$ 400.00	Accounts Payable	$ 5,000.00
Accounts Receivable	4,000.00	Capital Stock	5,500.00
Bills Receivable	3,000.00		
Merchandise	2,600.00		
Furniture and Fixtures	500.00		
	$10.500.00		$10,500.00

The B Co., Limited

Assets		*Liabilities*	
Cash	$ 100.00	Accounts Payable	$ 4,100.00
Accounts Receivable	6,000.00	Capital Stock	9,000.00
Merchandise	3,000.00		
Land and Buildings	4,000.00		
	$13,100.00		$13,100.00

SOLUTION

The amalgamation is brought about through the purchase by The A. B. Co., Limited, of the business of each of the other companies, and at the values shown in the books.

(*a*) To close the books of The A Co., Limited, the sale of its assets to and the assumption of its liabilities by The A. B. Co., Limited, will have to be recorded.

The Cash item could be posted direct from the Cash Book to the debit of the A. B. Co., Limited, but the whole transaction will be expressed in simple Journal form.

The A. B. Co., Limited	$10,500.00	
To Cash		$ 400.00
,, Accounts Receivable		4,000.00
,, Bills Receivable		3,000.00
,, Merchandise		2,600.00
,, Furniture and Fixtures		500.00

to record the sale of the assets.

Accounts Payable	$5,000.00	
To The A. B. Co., Limited		$5,000.00

to credit purchaser with liabilities assumed.

Shares in The A. B. Co., Limited	$5,500.00	
To The A. B. Co., Limited		$5,500.00

to record receipt of shares in payment of purchase price.

The Balance Sheet of The A Co., Limited, is now—

Assets		*Liabilities*	
Shares in The A. B. C. Co., Limited	$5,500.00	Capital Stock	$5,500.00

The shares that have been received are to be given to the shareholders in payment of their equity, so Capital Stock will be closed to the credit of Shareholders.

Capital Stock	$5,500.00	
To Shareholders		$5,500.00

The new shares are then given to the shareholders.

Shareholders	$5,500.00	
To Shares in The A. B. Co., Limited		$5,500.00

If Ledger accounts are prepared with balances as given in the opening Balance Sheet it will be found that after posting the above entries the accounts of The A Co., Limited, are all closed out.

(*b*) The next step is to record the entries in the books of The A. B. Co., Limited, for the purchase of the Assets and assumption of the Liabilities of each of the other companies. These will be the reverse of the entries made in the books of the other companies. Since the shareholders of the two original companies become the shareholders of the new company, entries must also be made to record their subscriptions and the settlement thereof. The total amount involved is $5,500.00 + $9,000.00 = $14,500.00.

Subscribers	$14,500.00	
To Capital Stock		$14,500.00

to record subscriptions immediately payable.

Cash	$ 400.00	
Accounts Receivable	4,000.00	
Bills Receivable	3,000.00	
Merchandise	2,600.00	
Furniture and Fixtures	500.00	
To The A Co., Limited		$10,500.00

purchased assets of The A Co., Limited.

The A Co., Limited	$5,000.00	
To Accounts Payable		$5,000.00

liabilities of The A Co., Limited, assumed.

Cash	$ 100.00	
Accounts Receivable	6,000.00	
Merchandise	3,000.00	
Land and Buildings	4,000.00	
To The B Co., Limited		$13,100.00

purchased assets of above company.

The B Co., Limited	$4,100.00	
To Accounts Payable		$4,100.00

assumed above liabilities of The B Co., Limited.

The A Co., Limited	$5,500.00	
The B Co., Limited	9,000.00	
To Subscribers		$14,500.00

The amount owing to the above companies is paid by issuing shares for the amount due to each, the amount due them thus being credited to their accounts for Subscription to Capital Stock.

The shareholders of The A Co., Limited, and The B Co., Limited, are now the shareholders of the A. B. Co., Limited.

The A. B. Co., Limited

Assets		*Liabilities*	
Cash	$ 500.00	Accounts Payable	$ 9,100.00
Accounts Receivable	10,000.00	Capital Stock	14,500.00
Bills Receivable	3,000.00		
Merchandise	5,600.00		
Land and Buildings	4,000.00		
Furniture and Fixtures	500.00		
	$23,600.00		$23,600.00

EXAMPLE 2

The A Co., Limited, and The B Co., Limited, agree to amalgamate under the name of The A. B. Co., Limited, with Authorized Capital of $200,000.00. The shareholders of each company accept shares in the new company, those of The A Co., Limited, receiving $75,000.00, and those of the B Co., Limited, $45,000.00.

A is given $2,000.00 in shares for his services in promoting the amalgamation.

Below are the Balance Sheets of the two companies.

(*a*) Raise entries (in Journal form) to close each amalgamating company's books.

(*b*) Raise entries (in Journal form) to open the books of the A. B. Co., Limited.

(*c*) Prepare the Balance Sheet of The A. B. Co., as after the above is completed.

The A Co., Limited

Assets		*Liabilities*	
Cash	$ 800.00	Accounts Payable	$ 6,000.00
Accounts Receivable	12,000.00	Bills Payable	12,000.00
Bills Receivable	10,000.00	Bank Loan	3,000.00
Merchandise	40,000.00	Capital Stock, Paid Up	50,000.00
Land and Buildings	16,000.00	Reserve Fund	15,000.00
Plant and Machinery	10,000.00	Profit and Loss	2,800.00
	$88,800.00		$88,800.00

The B Co., Limited

Assets		*Liabilities*	
Cash	$ 300.00	Accounts Payable	$ 8,000.00
Accounts Receivable	10,000.00	Bills Payable	16,000.00
Bills Receivable	8,000.00	Mortgage on Real Estate	18,000.00
Merchandise	50,000.00	Capital, Paid Up	50,000.00
Land and Buildings	10,000.00		
Plant and Machinery	10,700.00		
Profit and Loss	3,000.00		
	$92,000.00		$92,000.00

SOLUTION

Note. While Example 1 was a simple transaction where the amalgamation was effected at book values, you will observe that in this example such is not the case, other features entering into it. These should be followed very closely.

(*a*) The shareholders' equity in The A Co., Limited, is, according to the books, $67,800.00, represented by Capital Paid Up, $50,000.00; Reserve Fund, $15,000.00, and a credit balance in Profit and Loss of $2,800.00. They receive $75,000.00, hence Goodwill is valued at $7,200.00.

Entries—

Goodwill	$ 7,200.00	
To Shareholders		$ 7,200.00
The A. B. Co., Limited	$96,000.00	
To Cash		$ 800.00
,, Accounts Receivable		12,000.00
,, Bills Receivable		10,000.00
,, Merchandise		40,000.00
,, Land and Buildings		16,000.00
,, Plant and Machinery		10,000.00
,, Goodwill		7,200.00

to record transfer of Assets.

Accounts Payable	$ 6,000.00	
Bills Payable	12,000.00	
Bank Loan	3,000.00	
To The A.B. Co., Limited		$21,000.00
Shares in The A. B. Co., Limited	$75,000.00	
To The A. B. Co., Limited		$75,000.00

received these in settlement.

Capital Stock	$50,000.00	
Reserve Fund	15,000.00	
Profit and Loss	2,800.00	
To Shareholders		$67,800.00

The shareholders' equity is thus brought into their account, which now shows a credit balance of $75,000.00.

Shareholders	$75,000.00	
To Shares in The A. B. Co., Limited		$75,000.00

The shares received are given to the shareholders in the proportion they have held shares in The A. B. Co., Limited.

The equity of the shareholders of The B Co., Limited, is $47,000.00, represented by Capital Paid Up $50,000.00, less $3,000.00 impairment as shown on debit side of Profit and Loss account. For this they receive shares for $45,000.00, a further loss of $2,000.00.

Entries—

The A. B. Co., Limited	$89,000.00	
To Cash		$ 300.00
,, Accounts Receivable		10,000.00
,, Bills Receivable		8,000.00
,, Merchandise		50,000.00
,, Land and Buildings		10,000.00
,, Plant and Machinery		10,700.00

the assets are transferred to the purchaser.

Accounts Payable	$ 8,000.00	
Bills Payable	16,000.00	
Mortgage Loan	18,000.00	
Profit and Loss	2,000.00	
To The A. B. Co., Limited		$44,000.00

to record transfer of liabilities assumed by the purchaser, and also the loss, through sale, of $2,000.00, less than book value.

Shares in The A. B. Co., Limited	$45,000.00	
To The A. B. Co., Limited		$45,000.00

shares are received in settlement as agreed.

Capital Stock	$50,000.00	
To Shareholders		$50,000.00
Shareholders	$ 5,000.00	
To Profit and Loss		$ 5,000.00

The above two entries transfer to the Shareholders' account the amounts representing their equity; viz., $45,000—represented by Capital $50,000.00, less $5,000.00 Impairment.

Shareholders	$45,000.00	
To Shares in The A. B. Co., Limited		$45,000.00

The new shares are handed to the shareholders in settlement for interests transferred. Instead of holding $50,000.00 in shares of The B Co., Limited, they now hold $45,000.00 in shares of The A. B. Co., Limited, these being divided in the proportion they held the former shares.

(*b*) Entries will first be made to record the taking over of The A. B. Co., Limited, and The B Co., Limited, separately.

Cash	$ 800.00	
Accounts Receivable	12,000.00	
Bills Receivable	10,000.00	
Merchandise	40,000.00	
Land and Buildings	16,000.00	
Plant and Machinery	10,000.00	
Goodwill	7,200.00	
To The A Co., Limited		$96,000.00

assets of above company taken over.

The A Co., Limited	$21,000.00	
To Accounts Payable		$ 6,000.00
,, Bills Payable		12,000.00
,, Bank Loan		3,000.00

to charge The A Co., Limited, with its liabilities assumed.

Cash	$ 300.00	
Accounts Receivable	10,000.00	
Bills Receivable	8,000.00	
Merchandise	50,000.00	
Land and Buildings	10,000.00	
Plant and Machinery	10,700.00	
To The B Co., Limited		$89,000.00

assets of above company taken over.

The B Co., Limited	$44,000.00	
To Accounts Payable		$ 8,000.00
,, Bills Payable		16,000.00
,, Mortgage		18,000.00
,, Reserve		2,000.00

to charge The B Co., Limited, with liabilities assumed for it, and with amount below book value at which the business is purchased.

Preliminary Expense	$2,000.00	
To A		$2,000.00

allowance for services in promoting the amalgamation, to be paid in shares.

Subscribers	$122,000.00	
To Capital Stock		$122,000.00

This records the subscriptions as far as made known. The shareholders of The A Co., Limited, subscribe for $75,000.00, those of The B Co., Limited, for $45,000.00, and A, personally, subscribes for $2,000.00. These are, of course, payable at once in this case, so only called-up capital is being shown in Capital Stock account.

The A Co., Limited	$75,000.00	
The B Co., Limited	45,000.00	
A	2,000.00	
To Subscribers		$122,000.00

This transfers to the credit of the subscribers the amount at their credit for assets taken over, less their liabilities assumed, in the case of the companies. These amounts just cover their subscription as per agreement.

(*c*) *The A. B. Co., Limited*

Assets			*Liabilities*		
Current :			*Current :*		
Cash	$ 1,100.00		Accounts Payable	$14,000.00	
A/cs Receivable	22,000.00		Bills Payable	28,000.00	
Bills Receivable	18,000.00		Bank Loan	3,000.00	$45,000.00
Merchandise	90,000.00	$131,100.00	*Deferred :*		
Fixed :			Mortgage		18,000.00
Land & Buildings	$26,000.00				
Plant & Machinery	20,700.00	46,700.00	*To Shareholders :*		
Goodwill		7,200.00	Capital—Paid Up	$122,000.00	
Preliminary Expense		2,000.00	Reserve on Assets	2,000.00	124,000.00
		$187,000.00			$187,000.00

Note. The Reserve of $2,000.00 would probably be written off against some fixed asset, or against Goodwill, or else held as a reserve against some current asset such as Book Debts, and deducted therefrom in the Balance Sheet. This would be decided according to the reason for this allowance being made. In any event it is not a profit for it must be assumed that the price paid is what the business is believed to be worth, and if this is less than the book value it merely means that the book value is higher than the purchasers are willing to pay. Then, either a fixed asset may be written down or the amount held as a reserve against current assets, or the Goodwill may be reduced in the books.

Increase and Reduction of Capital

A Joint Stock Company can increase its capital beyond the amount authorized only after a by-law to that effect has received the required vote of the shareholders and the consent of the authority that gave the charter has been obtained. If a company has issued all its capital as authorized and obtains permission to issue more, the entries will be the same as for former issues, as explained already.

Decrease of capital refers to a reduction in the capital already issued, and requires the same sanction as an increase. The reduction is usually in the par value of the shares issued and reduces the equity of the shareholders as expressed in the capital account. It is sometimes used as a means of wiping out an impairment of capital when there is little prospect of doing so out of earnings, and also paying a satisfactory dividend afterwards on the present capital.

EXAMPLE

The X Co., Limited, obtains permission to reduce its capital by $40,000.00, and wipe out the present impairment, as shown at the debit of Profit and Loss account. Its Balance Sheet is as follows—

The X Co., Limited

Assets		*Liabilities*	
Cash	$ 100.00	Accounts Payable	$10,000.00
Accounts Receivable	18,000.00	Bills Payable	8,000.00
Bills Receivable	16,000.00	Mortgage	11,100.00
Merchandise	18,000.00	Capital, Paid Up	90,000.00
Land and Buildings	22,000.00		
Plant and Machinery	20,000.00		
Profit and Loss	25,000.00		
	$119,100.00		$119,100.00

Entries to effect the above change are—

Capital	$40,000.00	
To Capital Reduction Reserve		$40,000.00

to show reduction in capital.

Capital Reduction Reserve	$25,000.00	
To Profit and Loss		$25,000.00

to wipe out impairment.

Capital Reduction Reserve	$15,000.00	
To Capital Surplus		$15,000.00

To close out Capital Reduction Reserve

The Balance Sheet now is—

Assets		*Liabilities*	
Cash	$ 100.00	Accounts Payable	$10,000.00
Accounts Receivable	18,000.00	Bills Payable	8,000.00
Bills Receivable	16,000.00	Mortgage	11,100.00
Merchandise	18,000.00	Capital, Paid Up	50,000.00
Land and Buildings	22,000.00	Capital Surplus	15,000.00
Plant and Machinery	20,000.00		
	$94,100.00		$94,100.00

The Company, instead of having a deficit, now has a credit in Capital Surplus of $15,000.00.

While the Capital has been reduced by $40,000.00 the shareholders' equity is not changed. They have lost nothing by the reduction. The net assets are just as they were.

Their equity before the reduction was $65,000.00 represented by Capital Paid Up of $90,000.00, less Impairment $25,000.00. It is still $65,000.00, represented by Capital $50,000.00 plus Capital Surplus $15,000.00.

The term " Capital Surplus " indicates that the amount against it is not a profit from operations. It may be held to cover later losses, or capital expenses, if any, may be charged against it.

Treasury Stock

By this term is meant stock that has been issued to subscribers who have paid for it by property or services, and which has been presented by them to the company to be sold to provide working capital. They transfer it to the treasurer and an account is opened in the Share Ledger for such shares in his name. These shares, since they have been once issued and paid for, and are now the property of the company, may be sold at any price obtainable.

EXAMPLE

A, B, C, D, and E own a Patent which gives them the exclusive right to manufacture a certain article. They form a company with Authorized Capital of $500,000.00, of which $300,000.00 is issued to them in equal shares in payment of the patent. To provide working capital they each donate one-fifth of their shares to the company, and these are sold at $75.00 per share, cash. Raise in Journal form the necessary entries.

SOLUTION

Subscribers	$300,000.00	
To Capital Stock		$300,000.00

to record subscription.

Patents	$300,000.00	
To Subscribers		$300,000.00

The patents are transferred to cover subscriptions.

Treasury Stock	$60,000.00	
To Working Capital		$60,000.00

Shareholders donate $60,000.00 in shares to be sold to provide working capital.

Cash	$45,000.00	
Working Capital	15,000.00	
To Treasury Stock		$60,000.00

The Treasury Stock is sold at $75.00 per share, the discount being charged to Working Capital, thus reducing it to the amount realized.

The Treasury Stock account is now closed out and Working Capital account has $45,000.00 at its credit, which represents the net benefit from the donation, the company now having that amount ($45,000.00) of working capital from this source.

The Balance Sheet, after the above entries, will be—

Assets		*Liabilities*	
Cash	$ 45,000.00	Capital, Paid Up	$300,000.00
Patents	300,000.00	Working Capital	45,000.00
	$345,000.00		$345,000.00

"Working Capital" may be transferred to "Capital Surplus."

Instead of making entries for Treasury Stock, the amounts realized from the sale of the shares may be credited, as received, to Working Capital or Capital Surplus.

Forfeiture of Shares

Should a person subscribe for shares in a company and then fail to meet some of the calls, the directors of the company may, after giving due notice, declare the shares forfeited to the company. The payments already made belong to the company and the shares may be re-issued for any price which, with the amount already paid on them, will equal the par value or more. Until the par value is realized the original subscriber remains liable to pay the balance.

EXAMPLE

J. Semple subscribed for 10 shares, $100.00 each, in the Canada Produce Co., Limited, and paid calls amounting to 30 per cent. On failing to meet a further call of 20 per cent the shares were declared forfeited and were later sold at 85c. Raise entries in Journal form.

SOLUTION

Subscriber	$300.00	
To Capital Stock		$300.00

calls of 30 per cent on 10 shares.

Cash	$300.00	
To Subscriber		$300.00

above calls are paid.

Subscriber	$200.00	
To Capital Stock		$200.00

further call of 20 per cent on 10 shares.

Capital Stock	$500.00	
To Subscriber		$200.00
,, Forfeited Shares Suspense		300.00

10 shares, J. Semple, forfeited. Above entry takes them out of issued capital, closes the subscriber's account and transfers the amount paid to the credit of an account for profit on forfeited shares.

Subscriber	$850.00	
Forfeited Shares Suspense	150.00	
To Capital Stock		$1,000.00

10 forfeited shares sold at 85, the discount reducing the benefit from forfeiture.

Cash	$850.00	
To Subscribers		$850.00

to record payment of 10 shares at 85.

The Balance Sheet, after the above entries, will be, so far as it relates to these shares only—

Assets		*Liabilities*	
Cash	$1,150.00	Capital, Paid Up	$1,000.00
		Forfeited Shares Suspense	150.00
	$1,150.00		$1,150.00

The amount at the credit of Forfeited Shares Suspense may be transferred to the credit of Premium on Shares. The effect of the forfeiture is that $150.00 in excess of the par value has been received for the shares. It is of the nature of a capital surplus.

Shares Without Par Value

Provision is made in the Dominion Companies Act, and in those of some of the Provinces, for the issue of shares without Par Value.

Provisions may call for the whole amount received to be set up in Capital Stock account, or a stated sum, not less than one dollar for each share issued.

EXAMPLE

On August 1, 1940, the A Company Ltd., issued 2,000 shares, without par value, in settlement of Land and Buildings, valued at $40,000.00 and

$60,000.00 respectively, and issued a further 1,000 shares at $40.00 a share for cash.

(*a*) Raise entries to give effect to the above and prepare the Balance Sheet, assuming that the full amount received is to be shown as capital.

(*b*) Raise entries and prepare Balance Sheet, assuming that $25 a share is to be shown as capital.

SOLUTION

(*a*) (Expressed in Journal form)—

Land *Dr.*	$40,000.00	
Buildings *Dr.*	60,000.00	
To Capital Stock		$100,000.00
Issue of 2,000 shares, no par value, for above assets.		
Cash *Dr.*	$40,000.00	
To Capital Stock		$40,000.00
Issue of 1,000 shares, no par value, for cash at $40.00 a share, fully paid.		

The A Company, Ltd.
BALANCE SHEET,
August 1, 1940

Assets			*Liabilities and Capital*	
Current—			Capital Stock Subscribed	
Cash		$ 40,000.00	and Paid	$140,000.00
Fixed—			(3,000 shares, no par value)	
Land	$40,000			
Buildings	60,000	100,000.00		
		$140,000.00		$140,000.00

(*b*) (Expressed in Journal Form)—

Land *Dr.*	$40,000.00	
Buildings *Dr.*	60 000.00	
To Capital Stock		$50.000.00
,, Capital Surplus		50,000.00
Issue of 2,000 shares, no par value, for above assets, $25.00 to be shown as capital.		
Cash	$40,000.00	
To Capital Stock		$25,000 00
,, Capital Surplus		15,000.00
Issue of 1,000 shares at $40.00 for Cash, $25 a share to be stated as capital.		

The A Company, Ltd.
BALANCE SHEET,
August 1, 1940

Assets			*Liabilities and Capital*	
Current—			Capital Stock—	
Cash		$40,000.00	Subscribed and Paid	$ 75,000.00
Fixed—			(3,000 shares, no par value)	
Land	$40,000		Capital Surplus	65,000.00
Buildings	60,000	100,000.00		
		$140,000.00		$140,000.00

Since such shares have no par value on which to express dividends as a percentage, the dividend is expressed in dollars or cents per share.

Thus, if $12,000.00 were distributed in dividends at the end of the first year, the rate would be $4.00 a share.

The shares of one class are equal, although they may have been issued at different prices.

The Capital Surplus may be treated in much the same manner as Premium on Shares.

> "The slow penny is surer than the quick dollar. The slow trotter will out-travel the fleet racer. Genius darts, flutters and tires, but perseverance wears and wins."
> —MARDEN.

EXAMINATION QUESTIONS

Lesson 23

1. Below are balance sheets of The A. B. Co., Limited, and the C. D. Co., Limited, as on December 31, 19—:

The A. B. Co., Limited.

Assets		*Liabilities*	
Cash	$ 1,000.00	Capital—Paid Up	$300,000.00
Accounts Receivable	80,000.00	Reserve Fund	100,000.00
Bills Receivable	120,000.00	Sundry accounts and Bills Payable	50,000.00
Merchandise	200,000.00		
Land and Buildings	49,000.00		
	$450,000.00		$450,000.00

The C. D. Co., Limited

Assets		*Liabilities*	
Cash	$ 2,000.00	Capital—Paid Up	$200,000.00
Accounts Receivable	50,000.00	Accounts and Bills Payable	20,000.00
Bills Receivable	70,000.00	Bonds Payable	25,000.00
Merchandise	100,000.00		
Land and Buildings	23,000.00		
	$245,000.00		$245,000.00

They agree to amalgamate under the name of The A. B. C. D. Co., Limited. The shareholders of The A. B. Co., Limited, are to receive shares in the new company, fully paid up, for $450,000.00, and The C. D. Co., Limited, for $175,000.00, as consideration for their interests in the respective companies.

A is to receive shares to the value of $10,000.00 for services in promoting the amalgamation.

(*a*) Raise entries in the books of each of the amalgamating companies.

(*b*) Raise entries in books of The A. B. C. D. Co., Limited, to record the amalgamation, including issue of Shares to A.

2. After all adjustments have been placed on the books by means of Journal entries, the following figures are given you. Prepare a Trial Balance.

Petty Cash, Imprest, $50.00; Cash at Bank, $3,560.00; Accounts

Receivable, $4,035.50; Consignment No. 1, Jones & Co., $10.50; Insurance, $120.00; Accounts Payable, $5,920.00; Stationery on hand, $25.00; Merchandise Inventory, $5,000.00; General Expenses, $840.00; Reserve for Depreciation on Furniture, $105.00; Bills Receivable, $560.00; Unexpired Insurance, $30.00; Land and Buildings, $8,000.00; Bank Charges, $74.00; Bills Payable, $710.00; Rent due and unpaid, $100.00; Reserve for General Expenses, $35.00; Merchandise Purchases, $40,000.00; Furniture and Fixtures, $780.00; Wages Accrued, $200.00; Rent, $600.00; Wages, $1,500.00; Reserve for Bad Debts, $150.00; Depreciation on Furniture, $35.00; Merchandise Sales, $43,000.00; Capital "A" $10,000.00; Capital "B" $5,000.00.

3. A is in business with Balance Sheet as here given—

He is about to admit B as a partner.

Assets		*Liabilities*	
Sundry	$25,000.00	Sundry	$11,000.00
		A—Capital	14,000.00
	$25,000.00		$25,000.00

(*a*) Raise entries and firm's Balance Sheet, if B pays $16,000.00 into the business for a half interest.

(*b*) Raise entries and firm's Balance Sheet if B pays A $8,000.00 personally for a half interest.

4. The following errors are found in the course of your examination of a set of accounts. Make the necessary correcting entry and state how, if at all, the error would affect a statement of profits if not corrected.

(*a*) A purchase of $200.00 goods from T. White was recorded as a sale of $200.00 goods to T. White.

(*b*) Rent accrued at the end of the previous year, $40.00, had been credited to the Landlord's account, and when paid, Rent account was charged.

(*c*) Cash received from M. Wells, $80.00, was credited to W. Mells.

(*d*) Cost of repairs to building, $150.00, was charged to Building account.

5. Make up the Trial Balance from which the following statements were taken—

R. Brown

BALANCE SHEET,

December 31, 19—

Assets		*Liabilities*	
Cash	$ 506.38	Accounts Payable	$3,618.60
Accounts Receivable	2,694.11	Notes Payable	1,565.30
Notes Receivable	1,000.77	Accrued Charges	153.34
Inventory, Merchandise	4,627.60	R. Brown, Capital	4,623.68
Office Equipment	419,84		
Store Fixtures	183.60		
Delivery Equipment	382.50		
Insurance, Unexpired	63.93		
Prepaid Expenses	82.19		
	$9,960.92		$9,960.92

R. Brown

PROFIT AND LOSS STATEMENT,

For one month ending December 31, 19—

Sales		$7,709.35	
Less : Returned Sales		38.27	$7,671.08
Merchandise—Inventory Dec. 1, 19—	$2,945.94		
Purchases	6,348.85		
Freight on Purchases	1,231.65	$10,526.44	
Less : Merchandise—Inventory Dec. 31, 19—		4,627.60	
Cost of Goods Sold			5,898.84
Gross Profit			$1,772.24
Selling Expenses		$209.84	
General Administrative Expenses		400.32	610.16
Prime Operating Profit			$1,162.08
Other Income—			
Purchase Discount		$106.91	
Interest Earned		49.35	
Total Other Income			156.26
			$1,318.34
Charged to Income—			
Sales Discount		$ 17 21	
Interest Cost		10 00	27.21
Net Profit foi the month			$1,291 13

TO THE STUDENT—SPECIAL NOTE

Joint Stock Companies

The forms of accounts submitted will be suitable for a Joint Stock Company in any Province, and may be modified to meet the requirements of any company.

The requirements of the several Company Acts, while agreeing generally, are not identical and, if in practice a knowledge of Company Law is required, that of the Dominion or of the Province under whose statutes a charter is applied for should be consulted. The form, etc., of the Memorandum of Agreement or Memorandum of Association, as it is termed in some of the Acts, will be regulated by the Act under which application is made for a charter.

ACCOUNTING

GENERAL COURSE

Lesson 24

Company Books and Statements

COMPANY BOOKKEEPING

THE books and accounts relating to a Joint Stock Company are to some extent regulated by the Act under which it has been incorporated. The Dominion Act and the various Provincial Acts are substantially the same in this respect. Briefly stated, the actual bookkeeping of a Joint Stock Company differs from that of a Partnership as follows—

(*a*) In the entries relating to the Capital of the Company;

(*b*) In the entries relating to the Distribution of Profits;

(*c*) Special Records regarding Shareholders, Directors, etc., are called for by the various Company Acts.

LAW GOVERNING BOOKS OF RECORD

Section 21 of the Ontario Companies Act, referring to the Books of Record or Statistical Books, reads as follows—

The Corporation shall cause the secretary, or some other officer specially charged with that duty, to keep a book or books wherein shall be kept recorded—

(*a*) A copy of the Letters Patent and of any Supplementary Letters Patent issued to the corporation, and, if incorporated by Special Act, a copy of such Act, and the by-laws of the corporation duly authenticated;

(*b*) The names, alphabetically arranged, of all persons who are or who have been shareholders or members of the corporation;

(*c*) The post-office address and calling of every such person while such shareholder or member;

(*d*) The names, post-office addresses and callings of all persons who are or have been directors of the corporation with the date at which each person became or ceased to be such director;

And in the case of a corporation having share capital—

(*e*) The number of shares held by each shareholder;

(*f*) The amounts paid in, and remaining unpaid, respectively, on the shares of each shareholder;

(*g*) The date and other particulars of all transfers of shares in their order.

1. The books mentioned in Section 21 shall, during reasonable business hours of every day, except holidays, be kept open for the inspection of shareholders, members and creditors of the corporation and their personal representatives or agents, at the head office or chief place of carrying on its undertaking, and every such shareholder, member, creditor, agent or representative may make extracts therefrom.

2. Any director or officer who refuses to permit any person entitled thereto to inspect such books, or make extracts therefrom, shall incur a penalty not exceeding $100.00.

3. The directors shall cause proper books of account to be kept containing full and true statements of—

(*a*) The financial transactions of the corporation;

(*b*) The assets of the corporation;

(*c*) The sums of money received and expended by the corporation, and the matters in respect of which such receipt or expenditure took place;

(*d*) The credits and liabilities of the corporation; and a book or books containing minutes of all the proceedings and votes of the corporation, or of the board of directors, respectively, verified by the signature of the president or other presiding officer of the corporation.

4. The directors shall, at least seven days before the day on which the meeting is held, send by post to every shareholder a report containing—

(*a*) A balance sheet made up to date not more than three months before such annual meeting;

(*b*) An abstract of income and expenditure for the financial period ending upon the date of such balance sheet;

(*c*) The report of the auditor or auditors;

(*d*) Such further information respecting the company's financial position as the Special Act, the Letters Patent, Supplementary Letters Patent, or the by-laws of the company may require;

and the directors shall lay such report before the meeting.

Note. The provision setting forth the information that a Balance Sheet must contain, and which is practically the same for the Dominion and the various Provinces, has already been quoted in Lesson 13.

Books Used by Joint Stock Companies

To meet the requirements of the various Acts in a way that will best suit the needs of the business, the following books are usually kept by Joint Stock Companies in addition to those used by other commercial concerns—

1. The Memorandum of Agreement and Stock Book.
2. The Application and Allotment Book.
3. The Instalment Book.
4. The Instalment Receipt Book.

5. The Stock Certificate Book.
6. The Transfer Book.
7. The Register of Transfers.
8. The Share Ledger.
9. The Dividend Book.
10. The Register of Directors.
11. The Minute Book.

The above are not necessarily all separate books; some of them are almost invariably bound together. Explanations and illustrations regarding the use of each will be found in the pages which follow.

Memorandum of Agreement and Stock Book

This book, known in some Provinces as " Memorandum of Agreement," in others " Memorandum of Association," etc., the statutory form of which for Ontario is here shown, contains the subscriptions of the incorporators of the Company; it must be made out in duplicate and must contain all special conditions regarding Preference Stock or otherwise intended to have a bearing on the stock of the Company. Both copies of the book must be forwarded to the office of the Provincial Secretary, along with the Petition and necessary Affidavits in making application for Letters Patent. One copy is kept there on file and the other is returned to the Company. The form is given with subscriptions entered.

Application and Allotment Book

It is the practice to send out blank application forms to persons who are likely to invest in the shares of the newly-organized company. The purpose of the Application and Allotment Book is to keep a systematic record of the applications received and the shares subsequently allotted thereon. The application forms are numbered consecutively as received, and entered upon separate sheets corresponding to the initial letters of the surnames of the applicants. If the list is comparatively small, one sheet may prove sufficient. The first part of each sheet consists of special columns for the names, occupations and addresses of the applicants, together with the number of shares applied for and deposits received on account of same. This information is placed before the directors, as soon as the subscription list closes, for the purpose of allotting the shares. Letters of Allotment are sent to those whose applications have been accepted in part or in full, and Letters of Regret are mailed at the same time to those whose subscriptions have been refused.

In the illustration it has been assumed that the Toronto Yeast Company, Limited, has placed upon the market for open subscription 405 shares of its stock, par value $100.00 each, a deposit of 10 per cent to be made with the application and the balance to be paid on allotment. The Application and Allotment Book shows the directors that 455 shares have been subscribed for, which is 50 more than they intend to issue. After carefully considering the applications, they decide to reject the applications of Bailey and Cook and allot the others in full. Letters of Allotment should be sent immediately

Form of Memorandum of Agreement and Stock Book

We, the Undersigned, do hereby severally Covenant and Agree each with the other to become incorporated as a Company under the provisions of the Ontario Companies Act, under the name of the Toronto Yeast Company, Limited, or such other name as the Lieutenant-Governor in Council may give to the Company, with a capital of One Hundred Thousand Dollars, divided into One Thousand Shares of One Hundred Dollars each.

And We Do Hereby severally, and not one for the other Subscribe for and Agree to take the respective amounts of the capital stock of the said Company set opposite our respective names as hereunder and hereafter written and to become shareholders in such Company to the said amounts. In Witness Whereof, we have signed.

Name of Subscribers	Seal	Amount of Subscription	Date and Place of Subscription		Residence of Subscriber	Name of Witness
			Date	Place		
Alexander Holmes	O	$9000	Feb. 6, 19—	Toronto	58 Shaw St., Toronto	W. T. King
James Wilson	O	8000	,, 7, ,,	Toronto	132 Jarvis St., Toronto	W. T. King
Walter Scott	O	6000	,, 7, ,,	Toronto	84 Carlton St., Toronto	W. T. King
Thomas Murray	O	6000	,, 7, ,,	Toronto	96 College St., Toronto	W. T. King
Donald Hamilton	O	5000	,, 8, ,,	Toronto	98 St. George St., Toronto	W. T. King

Application and Allotment Book

No. of Application	Date of Application	Name of Applicant	Occupation	Address	No. of Shares Applied For	Deposit Paid on Application	Cash Book Folio	No. of Shares Allotted	Subscription Price per Share	Total Value of Shares Allotted	Balance Due on Allotment	Date of Cash Receipt or Payment	Cash Received in Payment of Allotment Money	Cash Book Folio	Cash Returned to Applicants Declined	Share Ledger Folio	No. of Share Certificate
5	Mar. 8, 19–	Allan, Samuel	Merchant	84 Church St., Toronto	200	$2000	6	200	$100	$20000	$18000	Mar. 14, 19–	$18000	16		1	1
4	,, 8, ,,	Aikens, Thos.	Manager	92 Yonge St., Toronto	50	500	6	50	100	5000	4500	,, 14, ,,	4500	16		2	2
3	,, 6, ,,	Bailey, Wm.	Accountant	64 Scott St., Toronto	40	400	4					,, 12, ,,		14	400		
2	,, 4, ,,	Brown, James	Lawyer	86 Bay St., Toronto	75	750	2	75	100	7500	6750	,, 14, ,,	6750	6		3	3
6	,, 9, ,,	Cook, David	Grocer	312 Spadina Ave., Toronto	10	100	8					,, 12, ,,		14	100		
7	,, 10, ,,	Cross, Alex.	Grocer	1 Bathurst St., Toronto	10	100	10	10	100	1000	900	,, 15, ,,	900	18		4	4
1	,, 3, ,,	Darwin, Chas.	Traveller	68 Dunn Ave., Toronto	20	200	2	20	100	2000	1800	,, 16, ,,	1800	18		5	5
8	,, 11, ,,	Dick, John	Manufactu'r	82 St. George St., Toronto	50	500	10	50	100	5000	4500	,, 16, ,,	4500	18		6	6
					455	$4550		405		$40500	$36450		$36450		500		

to the latter, informing them of the number of shares allotted and the balance still due upon them; the other two should receive Letters of Regret containing cheques for the amount received with their applications. At the same time that portion of the Application and Allotment Book dealing specially with allotments would be completed.

The Share Ledger is usually written up from this book immediately after the date fixed for the payment of the balances due upon allotment.

Instalment Book

This book is for the purpose of entering up a list of the shareholders and showing the amount payable by each when calls are made upon the stock. Sometimes, instead of using a separate book, the Application and Allotment Book is ruled with additional columns for each Call. As stock does not usually change hands until fully paid up, the Instalment Book may be prepared with special columns for the different calls, thus doing away with the necessity of writing the names more than once. Interest should be charged on all instalments not paid on or before the due date of same; this, however, is frequently neglected. In the accompanying illustration a column has been provided for this purpose.

Instalment Receipt Book

The receipts issued to shareholders when they pay their Calls are known as Instalment Receipts or Scrip. The blanks are bound together and consecutively numbered like bank cheques. The shareholder signs an acknowledgment, on the stub of the receipts, that he has received Scrip for the amount stated thereon. These Receipts are exchanged for Stock Certificates as soon as the shares have been fully paid up.

Stock Certificate Book

This book is very similar in form to the Instalment Receipt Book and consists of blank stock certificates, with the corresponding stubs. As soon as all the calls on the stock have been paid in, Stock Certificates are issued in exchange for the instalment Scrip held by the shareholders. Whenever shares are transferred the transferring shareholder returns his certificate to the Company and a new certificate is issued to the purchaser for the shares transferred; if the seller still retains any shares he receives a new certificate also. The Certificate returned should be stamped " Cancelled " and pasted to the proper stub in the Certificate Book.

Transfer Book

When shareholders are desirous of transferring any or all of their shares to another person, a regular form of transfer must be signed by the transferor for this purpose. These forms are bound together in a book kept at the Company's office and generally include, not only the transfer but also an agreement to be signed by the transferee in which he formally accepts the stock. These transfers and acceptances should be kept in the Company's possession, as they are generally the only written evidence it has of the transaction.

Call No. 2—40%—Payable May 15, 19—

Shareholders	Address	No. of Shares	Amount of Call	Interest on Overdue		Cash Received		Date	Received		C.B. Fol.	S.L. Fol.
Allan, Samuel	Barrie, Ont.	50	$2000			$2,000	00	19—	May	13	60	1
Aikens, Thomas	Meaford, Ont.	40	1,600			1,600	00	,,	,,	14	62	2
Bailey, William	Galt, Ont.	40	1,600	8	00	1,608	00	,,	June	15	64	3
Brown, James	Kitchener, Ont.	25	1,000	10	00	1,010	00	,,	July	14	62	4
Cook, David	Kitchener, Ont.	30	1,200			1,200	00	,,	May	15	64	5
Cross, Alex.	Stratford, Ont.	50	2,000			2,000	00	,,	,,	15	64	6
Darwin, Charles	Stratford, Ont.	40	1,600			1,600	00	,,	,,	14	62	7
Dick, John	Preston, Ont.	10	400			400	00	,,	,,	13	60	8
		285	$11,400	$18	00	$11,418	00					

Form of Instalment Receipt

THE TORONTO YEAST CO.
LIMITED

INSTALMENT RECEIPT.

No. 12.

Samuel Allan, Barrie, Ont.

Second Call of 40 Per Cent.

On 50 shares of $100 each.

Amount, $2,000. S.L. Fol. 1.

Dated May 13, 19—

Received Receipt for above Instalment.

SAMUEL ALLAN.

No. 12 INSTALMENT RECEIPT 50 Shares, $2,000

THE TORONTO YEAST COMPANY, Limited

RECEIVED from Samuel Allan, the sum of Two Thousand Dollars, being the Second Call of Forty per cent. on Fifty Shares of the Capital Stock of **THE TORONTO YEAST COMPANY, LIMITED,** said shares having been reserved and set apart for him, or his assigns, on condition that he, or they, fulfil the terms of the subscription.

IN WITNESS WHEREOF we hereunto subscribe our names and affix the Corporate Seal of the Company this 13th day of May, 19—.

CHAS. DARWIN, Secretary.

Seal of Company

JAMES BROWN, President.

Form of Stock Certificate

Certificate No. 5.

For 30 *Shares*

Issued to

DAVID COOK

Kitchener, Ont.

Dated July 3, 19—

From whom transferred

.....

Dated.....19—

Received Certificate No. 5 *for* 30 *Shares this 6th day of July*, 19—.

DAVID COOK

Number 5

Authorized Capital Stock, $100,000.

Number of Shares 1,000 of $100 each

Shares 30

This Certifies that

DAVID COOK

is the owner of Thirty fully-paid Shares of One Hundred Dollars each of the Capital Stock of

The Toronto Woodenware Co., Limited

The said Shares are transferable only on the Books of the Company in person or by Attorney on surrender of this Certificate.

Seal

In Witness Whereof *the said Company has caused this Certificate to be signed by the duly authorized officers under the Corporate Seal of the Company this 3rd day of July*, 19—.

CHAS. DARWIN,
Secretary.

JAMES BROWN,
President.

SHAW SCHOOLS LIMITED

Form of Transfer Book

Share Led. Folios	
18	FOR VALUE RECEIVED, I, James Clark, do hereby assign and transfer to William Scott, all my right, title, and interest in Ten Shares of the Capital Stock of *The Toronto Woodenware Company, Limited*, on which has been paid the sum of One Thousand Dollars, and which are now standing in my name on the books of the said Company. WITNESS my hand at the office of the Company, in the City of Toronto, this 15th day of October, 19—. Witness: D. HAMILTON. JAMES CLARK.
22	I HEREBY ACCEPT the foregoing Transfer of Ten Shares of the Capital Stock of *The Toronto Woodenware Company, Limited.* Dated this 15th day of October, 19—. Witness: D. HAMILTON. WILLIAM SCOTT.

Some companies have to enter up so many transfers that they are obliged to employ a person for the special purpose of keeping the Transfer Book. This person is known as the Transfer Clerk. Shares are frequently transferred by brokers holding a power of attorney from the transferor; in such cases the power of attorney should be filed carefully away, or attached to the actual transfer. Forms for this purpose are commonly printed on the back of the Stock Certificates, as follows—

For value received.....hereby assign and transfer unto.....
.....share....of the capital stock represented by the within certificate, and do hereby constitute and appoint.....my attorney, to transfer the said stock on the books of the within named company, with full power of substitution in the premises.

.....

Date.....19—

Signed in the presence of

.....

In passing, it may be well to call attention to the fact that shares not fully paid up can be transferred only with the consent of the directors of the company; indeed, this consent is required by many companies even after the stock has been fully paid up, to prevent the shares getting into the hands of undesirable persons. Under the Dominion Act shares on which calls made are not paid cannot be transferred.

Register of Transfers

Referring back to clause (*f*) of section 21 of the Ontario Companies Act, as quoted, it will be seen that Joint Stock Companies are required to keep a record of the date and other particulars of all transfers of stock in their

Form of Transfer Register

NO OF TRANSFER	DATE OF TRANSFER	TRANSFEROR S			SHARES TRANSFERRED				TRANSFEREE'S			
		NAME	ADDRESS	S. L FOLIO	HOW MANY	PAR VALUE	PAID IN	UNPAID	NAME	OCCUPATION	ADDRESS	S. L. FOLIO
1	19- Apr 3	Jas Wood	Guelph	3	10	1000 00	1000 00		Jas Walters	Lawyer	Toronto	12
2	19- May 10	A T Long	Ottawa	6	15	1500 00	1500 00		Thos Green	Merchant	Ottawa	14
3	19- Sept 12	F Small	Goderich	8	10	1000 00	800 00	200 00	L. Morton	Accountant	Stratford	16
4	19- Oct 13	W Hunter	London	9	7	700 00	700 00		A. Arnold	Merchant	Toronto	18

order. Such a record should be kept in a careful and systematic manner, otherwise the accounts of the individual shareholders are not likely to be reliable. Several forms are in use for this purpose, but the one on page 11 will be found suitable to the needs of most companies. An extra column may be added to record the serial numbers of the shares transferred if desired. The information recorded in this Register is, of course, obtained from the Transfer Book; the necessary entries in the Share Ledger may be posted either from the Register or the original transfers.

The Share Ledger

The purpose of this book, which is frequently called the Stock Ledger, is to show, at a glance, full information regarding the stock held by individual shareholders. An account is kept with each of them, showing his name, occupation, address, the number of shares he acquires, transfers or holds, the par value of said shares and the amounts paid in or remaining unpaid thereon. The various entries are usually obtained from the Application and Allotment Book, the Instalment Receipt Stubs and the Transfer Register, although many prefer posting all cash items from the Cash Book.

Herewith are submitted several forms of Stock Ledgers, all of which have been found to be thoroughly practical.

In Share Ledger "A," Sinclair has been allotted 120 shares of stock on January 8, 19—, and has paid a first call of 40 per cent thereon on January 15. As all of the entries under the headings " Shares " and " Par Value of Shares " are self-explanatory no remarks need be made about these: the other columns, however, may not be so easily understood. As 40 per cent, or $40.00 per share, is the amount paid on the first call, this multiplied by the number of shares gives us $4,800.00 as the " Paid-up Stock acquired." This amount deducted from the Par Value of the stock held gives the balance remaining unpaid. On April 14, 19—, Sinclair transfers 40 shares and as $40.00 has been paid on each of these shares he is really transferring $1,600.00 Paid-up Stock; this deducted from the $4,800.00 he held before the transfer leaves him $3,200.00 Paid-up Stock; subtract the $3,200.00 from $8,000.00 Par Value and the difference, $4,800.00, is the amount remaining unpaid on the 80 shares now held by Sinclair. Call No. 2, amounting to 40 per cent, or $40.00 per share, is paid by Sinclair on the 80 shares held by him on June 8, 19—; this gives $3,200.00 which has to be added to the Paid-up Stock previously held by him and deducted from the previous unpaid balance. On August 10, 19—, he buys 30 shares of the same stock from another shareholder, and as $80.00 per share has already been paid in on it he thus increases his Paid-up Stock by $2,400.00, making a total of 110 shares of stock on which $8,800.00 has been paid and $2,200.00 remains unpaid. The remaining transactions are dealt with in a similar manner.

Many accountants prefer the arrangement of the columns in Share Ledger " B " to that shown in "A." The information given is exactly the same in both cases, so that a detailed explanation of the entries given in the illustration is entirely unnecessary. Where it is desired, the columns dealing with the par value of the shares may be omitted; this, however, is not recommended.

Share Ledger "A"

William Sinclair. Grocer.
Guelph Ont.

DATE	PARTICULARS	FOL. OR NO.	SHARES			PAR VALUE			PAID UP CALLS			UNPAID STOCK
			TRANSFERRED	ACQUIRED	BAL HELD	TRANSFERRED	ACQUIRED	BAL HELD	TRANSFERRED	ACQUIRED	BAL HELD	
19- Jan 8	Allotment	1		120	120		12000 -	12000 -				12000 -
19- " 15	Call No 1, 40%	6			120			12000 -		4800 -	4800 -	7200 -
19- Apr 14	Trans to S Gray	3	40		80	4000 -		8000 -	1600 -		3200 -	4800 -
19- June 8	Call No 2 40%	38			80			8000 -		3200 -	6400 -	1600 -
19- Aug 10	Trans from L Watt	16		30	110		3000 -	11000 -		2400 -	8800 -	2200 -
19- Sept 16	Call No 3, 20%	84			110			11000 -		2200 -	11000 -	
19- Nov 7	Trans to C Dodds	34	60		50	6000 -		5000 -	6000 -		5000 -	

Share Ledger "B"

William Sinclair.
Guelph, Ont.

Grocer

DATE	PARTICULARS	FOL. OR NO.	TRANSFERRED			ACQUIRED			BALANCES			UNPAID STOCK
			SHARES	PAR VALUE	PAID UP	SHARES	PAR VALUE	PAID UP	SHARES	PAR VALUE	PAID UP	
19- Jan. 8	Allotment	1				120	12000 -		120	12000 -		12000 -
19- " 15	Call No 1, 40%	6						4800 -	120	12000 -	4800 -	7200 -
19- Apr. 14	Trans to S Gray	3	40	4000 -	1600 -				80	8000 -	3200 -	4800 -
19- June 8	Call No 2, 40%	38						3200 -	80	8000 -	6400 -	1600 -
19- Aug. 10	Trans from L Watt	16				30	3000 -	2400 -	110	11000 -	8800 -	2200 -
19- Sept. 16	Call No 3, 20%	84						2200 -	110	11000 -	11000 -	
19- Nov. 7	Trans to C Dodds	34	60	6000 -	6000 -				50	5000 -	5000 -	

Share Ledger "C"

William Sinclair
Guelph, Ont

Grocer

SHARE ACCOUNT—$100.00 EACH

SHARES DISPOSED OF					SHARES ACQUIRED				BALANCES HELD		
DATE		FOLIO	PARTICULARS	NO. OF SHARES	DATE		FOLIO	PARTICULARS	NO. OF SHARES	DATE	NO. OF SHARES
'19-					'19-						
Apr.	14	3	Transfer to S. Gray	40	Jan.	8	1	Allotment	120	Jan. 8	120
Nov.	7	34	" " C. Dodds	60	Aug.	10	16	Transfer from L. Watt	30	Apr. 14	80
										Aug. 10	110
										Nov. 7	50

CASH ACCOUNT

DATE		PARTICULARS	FOLIO	AMOUNT DUE		DATE		PARTICULARS	FOLIO	AMOUNT PAID	
'19-						'19-					
Jan.	8	Call No 1. 40% on 120	2	4800	00	Jan.	15	Cash	86	4800	00
June	8	" " 2.40% " 80	16	3200	00	June	8	"	38	3200	00
Sept.	16	" " 3.20% " 110	20	2200	00	Sept.	16	"	84	2200	00
				10200	00					10200	00

Form of Dividend Book

THE HAMILTON SOAP COMPANY, LIMITED

Dividend No. 5, 7 per cent., declared June 29, 19—

Names of Shareholders	Addresses	No. of Shares	Amount of Dividend
Geo. Harris	Dundas, Ont.	40	$280 00
Jno. Lester	Burlington, Ont.	20	140 00
Edw. Frame	Grimsby, Ont.	30	210 00
Chas. Dewar	Beamsville, Ont.	50	350 00
Geo. Gray	Ancaster, Ont.	20	140 00
Chas. Murray	Dundas, Ont.	40	280 00
		200	$1,400 00

Form of Register of Directors

Date Elected		Names	Occupation	Address	Date Retired		Remarks
19— Jan.	30	Henry Green	Merchant	23 Front E., Toronto	19— Jan.	30	
,,	,,	James Black	,,	53 King W., ,,	,,	,,	
,,	,,	Thos. White	,,	31 Yonge St., ,,	,,	,,	
,,	,,	Wm. Gray	,,	134 Yonge St., ,,	,,	,,	
,,	,,	John Brown	,,	43 Bay St., ,,	,,	,,	
19— Jan.	30	Henry Green	Merchant	23 Front E., Toronto	19— Jan.	30	
,,	,,	James Black	,,	53 King W., ,,	,,	,,	
,,	,,	Wm. Gray	,,	134 Yonge St., ,,	,,	,,	
,,	,,	Alex. Smith	,,	214 Spadina Av. ,,	,,	,,	
,,	,,	Robt. Young	,,	518 Yonge St., ,,	,,	,,	

Share Ledger "C" is an excellent form. It may be arranged with the Share account beneath the Cash account or alongside of it. The Share account contains a record of the shares only; the Cash account of the amounts due on Call and paid thereon. The same transactions have been

entered as in Ledgers "A" and " B " in order that the different forms may be compared more readily. On January 8, when the allotment was made, the number of shares allotted was entered in the Share account; at the same time the Cash account was charged up with the amount of Call No. 1 and credited with the cash when paid. On April 14, 40 shares are transferred and entered accordingly in the Share account, no entry being made in the Cash account, as the latter is not affected in any way. On June 8, Call No. 2 is made, and as Sinclair holds 80 shares on this date, he is charged with $40.00 per share on this number, and credited when the cash is paid. The transfer of 30 shares from Watt on August 10 increases Sinclair's shares to 110, on which he is charged $20.00 per share for the third and last call on September 16. Payment being made on this date his Cash account balances; when it does not balance it indicates the amount unpaid on Calls that have been made.

Dividend Book

This book is simply a list of the shareholders with their addresses, against which are written the number of shares held by each and the dividend payable thereon. In some cases an extra column is ruled in which the shareholder signs an acknowledgment of the receipt of his dividend; this, however, is seldom done, as dividends are nearly always paid by cheques drawn in such a way that the endorsements thereon answer this purpose.

Register of Directors

The use of this book will be readily understood by studying the illustration given herewith. As the Board of Directors seldom consists of more than five members of the Company, it is better to write out a new list each year rather than attempt to use the same list with corrections. A specimen Register is submitted written up for two successive years.

EXAMINATION QUESTIONS

Lesson 24

1. Explain the use of Application and Allotment Book.

2. The Lake Ontario Steamship Co., Limited, offer for public subscription 2,000 shares of their stock, par value $100.00 each, applications to be sent to the National Trust Co., Toronto, accompanied by a deposit of 10 per cent of the amount subscribed for, balance payable on allotment. Prepare form of Application and Allotment Book with nine applications entered for consideration by the Directors at their meeting this afternoon.

3. Prepare an Instalment List of five shareholders for a third and last Call of 30 per cent upon the stock of their Company, showing dates when payment was made.

4. Write the form of Transfer generally printed on the back of Stock Certificates with blanks properly filled in.

5. Prepare a specimen page of a Transfer Register and complete it by entering a transfer for ten shares from Jas. Morris to Thos. Miller.

6. The Sound Co., Limited, was incorporated with an Authorized Capital of 5,000 7 per cent Cumulative Preferred shares of $100.00 each and 5,000 shares of Common, without par value. 4,000 of the Common shares were issued to A for patents, the value of which is to be recorded at $200,000.00, and the remaining Common shares were issued at $25.00, payable in cash. Of the Preferred shares, 3,000 were issued at par, payable $10.00 on application, $25.00 on allotment, and the balance in three calls of 20 per cent, 20 per cent and 25 per cent at monthly intervals.

   Organization Expense paid in Cash was $2,000.00.

   Raise the entries to record the above in the financial books, up to the receipt of amounts due on allotment, and prepare the Balance Sheet of the company as at that time.

   At the end of the first year, profits distributed in dividends were $12,000.00 and, at the end of the second year, $50,000.00. Show the rates of dividends in each year.

7. The Galt Foundry Co., Limited, is organized with six shareholders, who subscribe as follows: Alexander Bruce, 40 shares; William Acton, 25 shares; Thomas Scott, 25 shares; James Hamilton, 20 shares; Donald Stewart, 30 shares; Geo. Murray, 30 shares. The shares are $100.00 each and they pay a first instalment of 40 per cent on August 1, 1940; Bruce transfers 15 shares to Hamilton on October 30, 1940; Acton transfers 15 shares to Scott on November 8, 1940; they all pay

a second call of 35 per cent on December 1, 1940; Stewart transfers 10 shares to Bruce on December 31, 1940; Murray transfers 15 shares to Acton on December 31, 1940; they all pay a final call of 25 per cent on March 1, 1941; Bruce transfers all his stock to Acton on April 3, 1941. Write Share Ledger account for Alexander Bruce, using form "A."

8. Using form "C," write the Share Ledger account for Donald Stewart.
9. How many shares will be recorded on the stock certificate given to Murray?

ACCOUNTING
GENERAL COURSE

Lesson 25

The Synoptic

NATURE

THE Synoptic is a modified form of Journal, and is sometimes known as a Columnar Journal, Cash Journal, or Special Column Journal.

It should be recalled that the ordinary two-column Journal is capable of accommodating entries for every kind of business transaction, and might be so employed (see page 12, Lesson 6). The objection to such a method is that it entails much labour that might be avoided, and that it does not classify the transactions.

There are certain transactions in the normal course of business that constantly recur, and if these repeating transactions can be sifted out, and those alike in nature grouped together, much labour relative to posting is prevented. This is done by posting the total of a number of like transactions instead of posting individual items. One way of accomplishing this classification is the provision of a Sales Book, Purchase Book, Cash Book and Bill Books. These books classify the transactions according to Merchandise Sold, Merchandise Bought, Cash, Bills Receivable and Bills Payable.

Another method is to employ one Journal provided with a number of columns, the additional columns really taking the place of the other books of original entry. One or more columns may be provided for each book represented. Thus, for Cash, at least two columns will be required, one for Receipts and one for Payments. In addition to these two, columns may also be provided for purposes similar to those for which special columns are provided in the Cash Book, such as, Bank Dr. and Cr., Cash Discounts Dr. and Cr., Bank Discount and Exchange, Expenses, etc. Other columns may be provided for Sales, Purchases, Bills Receivable, Bills Payable, etc. In fact, as many columns may be added as desirable, the special columns provided being justified by the frequency with which transactions are repeated.

Normally, such a book is designed to accommodate original records of every transaction that takes place. It may, however, be found desirable to modify this procedure. Certain transactions that are frequently repeated may be originally recorded in appropriate books (such as Sales Book and Purchase Book) and the totals of such books periodically brought into the Synoptic. The latter then becomes a book of secondary entry.

The total of the Sales Book and the total of the Purchase Book is brought into the Synoptic in order to make the latter complete and to enable the

accuracy of the entries to be proved by balancing. (See illustration, pages 15 and 16.) The Synoptic is then the only book used as a posting medium as far as the General Ledger is concerned.

The Synoptic may be used to advantage by concerns whose transactions may be recorded in comparatively few Ledger accounts. When these conditions exist the use of the Synoptic minimizes the labour and time of bookkeepers, since posting to accounts other than personal accounts, or accounts for which special columns are not provided, may be done by posting totals once a year or, if desirable, once a month.

Synoptics of many designs are sold by stationers, and each has its own merits. The ruling may, of course, be modified to meet special requirements.

Operation

The chief points to keep in mind when making records in the Synoptic are—

1. That the total of the amounts entered in the Dr. columns exactly agrees with the total of amounts entered in the Cr. columns, in connection with *each transaction.*

2. That amounts are entered in the correct columns.

Transactions of common occurrence, affecting accounts for which special columns are provided in the Synoptic, may be recorded on one line. Transactions that occur more or less frequently, and for which special columns are not provided, may be recorded on two lines, one for the Debits and one for the Credits. (See transaction of December 17 in illustration on pages 15 and 16.)

Sales

Cash Sales, if numerous, may be recorded by entering the daily total each day. If cash sales are few they may be recorded individually in the Synoptic.

Credit Sales

If the credit sales are numerous it will be advisable to keep a Sales Book, or a binder of duplicate invoices. The total only of the Sales Book will then be incorporated periodically into the Synoptic as shown, and posting of the items from the Sales Book to the customers' accounts will be carried out in the ordinary way, irrespective of the Synoptic. The period adopted is a matter to be decided by the requirements.

If credit sales are few they may be recorded individually in the Synoptic and no Sales Book need then be kept.

Purchases

If purchases are few they may be recorded directly in the Synoptic. If, however, they are numerous, it may be desirable to keep a Purchase Book and to transfer the total of same to the Synoptic periodically.

Bills Receivable and Bills Payable

Bill Books may be kept to contain *auxiliary* records of Bills Receivable and Bills Payable.

It may be observed that in the form illustrated on pages 15 and 16 the posting of individual items is performed exclusively from the six columns at the extreme left.

The Synoptic is employed to greatest advantage when continued totals are carried through for a period of a year, and the totals posted to Ledger accounts once a year only. Items affecting personal accounts or accounts for which special columns are not provided, should be kept posted up to date. If separate Ledgers are kept for customers' accounts and creditors' accounts respectively, a monthly Trial Balance should be compiled and compared with the corresponding columns in the Synoptic. The difference between the total of the Dr. column and the total of the Cr. column representing one Ledger should be in agreement with the net total of the individual accounts in that Ledger. The columns provided for the Customers' Ledger and for the Creditors' Ledger, therefore, operate as controlling accounts.

The Synoptic may, however, be closed off monthly, and monthly totals posted to the Ledger accounts. This involves more work than the method of posting once a year and, in the absence of special reasons for closing the Synoptic monthly, it is preferable to adopt the method of posting totals once a year.

Advantages

The entries for each transaction may be balanced and a complete debit and credit record made simultaneously. This advantage is lost, however, if care is not exercised, or partial entries only are made. It is a good plan to test the Synoptic occasionally to see that the total of all debit columns is equivalent to the total of all credit columns. All columns should be totalled at the foot of each page as each page is completed, and these totals should be balanced when brought forward to the following page. This checks the accuracy of the " brought forward " figures as well as the preceding entries.

In a business where few Ledger accounts (other than personal accounts) are required, the Synoptic enables the bookkeeping to be done by one person with the minimum of labour, since the general Ledger posting is condensed into a few totals made once a year or once a month.

Disadvantages

When all original records are made directly into the Synoptic, the work devolves entirely upon one person and cannot be distributed among a number of clerks, because all original entries are made in one book. This feature renders the Synoptic unsuitable when there is a large number of personal accounts for creditors or customers.

It gives to the one keeping the Synoptic full control of all entries, and thus may facilitate the fraudulent manipulation of figures.

In a business that requires many Ledger accounts to be kept the Synoptic

is not so suitable, as the number of columns required would make the book unwieldy.

It is conducive to inaccuracies because of the great care required to ensure that figures are entered in correct columns.

Illustrative Problem

For the purpose of illustrating the use of a Synoptic, the following conditions are assumed to obtain, namely—

(*a*) That credit sales are recorded by means of duplicate invoices and particulars are posted directly to personal accounts. These duplicates are summarized and the total carried into the Synoptic each month.

(*b*) That a Purchase Book is kept. Individual items are posted directly to personal accounts, and a total carried into the Synoptic each month.

(*c*) That the Synoptic has been kept for the first eleven months of a year, and that totals are posted to Ledger once a year, i.e. at December 31.

The following are the account balances as at January 1, 19—:

In General Ledger

		Dr.	*Cr.*
1.	Accounts Receivable	$ 672.88	
2.	Bills Receivable	100.00	
3.	Merchandise Inventory	6,872.25	
4.	Buildings	15,000.00	
5.	Office Furniture	1,000.00	
6.	Equipment	2,621.16	
7.	Accounts Payable		$ 2,147.60
8.	Trade Bills Payable		500.00
9.	Bank Loan		7,000.00
10.	Mortgage		4,000.00
11.	Salesmen's Salaries		71,00
12.	Office Salaries		47.00
13.	Reserve for Depreciation on Buildings		600.00
14.	Reserve for Depreciation on Equipment		262.12
15.	Reserve for Bad Debts		687.97
16.	R. Carson, Capital		12,500.00
		$26,266.29	$27,815.69

In the Synoptic

Cash	$ 25.00	
Bank	1,524.40	
	$27,815.69	$27,815.69

The Synoptic has been totalled to date, and at November 30 the balances and totals are as shown on the first line of the illustration on pages 15 and 16.

The following are transactions selected from the business of December, 19—:

19—

Dec. 2. Issued Cheque No. 122 to retire my note No. 87 of $1,000.00, together with interest on same, $35.00.

,, 5. Received Cash $142.00 from R. Tate in settlement of his account of $150.00, Discount $8.00.

,, 6. Cash Sales, $173.50.

,, 8. Received Promissory Note from B. Oakman $230.00. Note dated December 6 at 30 days.

,, 10. Paid D. Coles $150.00 on account by Cheque No. 123.

,, 12. Gave F. Leaf my promissory note for $219.40 in settlement of account.

,, 15. Issued a credit note to B. Oakman in respect of goods returned, $20.00.

,, 17. Purchased Filing Cabinet from Library Bureau, Limited, on credit, $135.00.

,, 18. Discounted at Bank promissory note received from Oakman on December 8, Discount 7 per cent.

,, 20. R. Carson draws cheque No. 124 in favour of himself on account of salary and other credits, $500.00.

,, 21. Received cheque from T. Plant, $607.00, in settlement of his note due to-day $600.00, and interest thereon $7.00.

,, 22. Paid the following—

Salaries of salesmen	$563.50 Cheque No. 125.
Salaries of Office Staff	$417.00 Cheque No. 126.
Rent	$80.00 Cheque No. 127.

,, 24. Received credit note from H. Phillips in respect of shortage in shipment from him on November 23, $15.60.

,, 27. Acceptance of G. Manor discounted at the Bank in November, is reported dishonoured. Amount of acceptance $300.00, interest thereon to maturity $4.00. (Interest has not been charged to Manor's account.)

,, 28. Received Money Order from P. Lewis for $65.00 in settlement of his account, which was written off in 19— as uncollectable.

,, 29. Gave cheque No. 128 for Advertising, $164.00. Deposited in Bank, $1,000.00.

,, 31. Total of Purchase Book for December, $3,658.71.

Total of Sales Summary for December, $4,016.35.

Enter the above transactions in the Synoptic, and post all General Ledger accounts. Close the Synoptic and prepare same for opening on January 1, 19—. Take off a Trial Balance of the General Ledger as at December 31, 19—.

NOTE TO STUDENTS

Comparing the problem with the solution given is not a satisfactory way of mastering instruction.

Without referring to the given solution, do the required work yourself with pencil. When complete, compare results carefully with the given solution. Note any differences. If any question arises as to the proper treatment of any item which you cannot answer, send an inquiry to the School.

Unless you follow this plan you are likely to meet difficulty in connection with practical work.

The Synoptic for this problem will be found on pages 15 and 16. The General Ledger accounts and Trial Balance are shown hereunder.

Accounts Receivable (1)

19—							19—						
Jan.	1	Balance			672	88	Dec.	31		S 38	63,098	45
Dec.	31		S 38	63,200	02								

Bills Receivable (2)

19—							19—						
Jan.	1	Balance			100	00	Dec.	31		S 38	2,841	50
Dec.	31		S 38	3,272	33								

Merchandise Inventory (3)

19—													
Jan.	1	Balance			6,872	25							

Buildings (4)

19—													
Jan.	1	Balance			15,000	00							

Office Furniture (5)

19—																
Jan.	1	Balance				1,000	00									
Dec.	17		S	38		135	00									

Equipment (6)

19—																
Jan.	1	Balance				2,621	16									

Accounts Payable (7)

19—								19—							
Dec.	31		S	38	9,026	71		Jan.	1	Balance			2,147	60
								Dec.	31		S	38	11,814	92

Trade Bills Payable (8)

19—								19—							
Dec.	31		S	38	1,816	75		Jan.	1	Balance			500	00
								Dec.	31		S	38	2,727	26

Bank Loan (9)

								19—							
								Jan.	1	Balance			7,000	00

Mortgage (10)

								19—							
								Jan.	1	Balance			4,000	00

Salesmen's Salaries (11)

19—							19—				
Dec.	31		S	38	7,116	69	Jan.	1	Balance		71 00

Office Salaries (12)

19—							19—				
Dec.	31		S	38	3,854	81	Jan.	1	Balance		47 00

Reserve for Depreciation on Buildings (13)

							19—				
							Jan.	1	Balance		600 00

Reserve for Depreciation on Equipment (14)

							19—				
							Jan.	1	Balance		262 12

Reserve for Bad Debts (15)

							19—				
							Jan.	1	Balance		687 97
							Dec.	28		S 38	65 00

R. Carson, Capital (16)

							19—				
							Jan.	1	Balance		12,500 00

Library Bureau Ltd. (17)

						19— Dec.	31	S	38	135	00

R. Carson, Drawings (18)

19— Dec.	20			S	38	500	00				

Discount on Sales (19)

19— Dec.	31			S	38	638	20				

Discount on Purchases (20)

						19— Dec.	31	S	38	1,016	43

Interest, Discount and Exchange (21)

19— Dec.	31			S	38	213	81	19— Dec.	31	S	38	7	00

Merchandise Purchases (22)

19— Dec.	31			S	38	47,424	81	19— Dec.	31	S	38	352	32

SHAW SCHOOLS LIMITED

Sales (23)

19—							19—						
Dec.	31		S	38	1,664	25	Dec.	31	Cash Sales	S	38	1,433	50
							,,	31	Credit Sales	S	38	60,899	99

Rent (24)

19—													
Dec.	31		S	38	960	00							

Insurance (25)

19—													
Dec.	31		S	38	240	00							

Advertising (26)

19—													
Dec.	31		S	38	164	00							

Trial Balance, December 31, 19—

1	Accounts Receivable	$ 774	45		
2	Bills Receivable	530	83		
3	Merchandise Inventory	6,872	25		
4	Buildings	15,000	00		
5	Office Furniture	1,135	00		
6	Equipment	2,621	16		
7	Accounts Payable			$ 4,935	81
8	Trade Bills Payable			1,410	51
9	Bank Loan			7,000	00
10	Mortgage			4,000	00
11	Salesmen's Salaries	7,045	69		
12	Office Salaries	3,807	81		
13	Reserve for Depreciation on Buildings			600	00
14	Reserve for Depreciation on Equipment			262	12
15	Reserve for Bad Debts			752	97
16	R. Carson, Capital			12,500	00
17	Library Bureau, Ltd.			135	00
18	R. Carson, Drawings	500	00		
19	Discount on Sales	638	20		
20	Discount on Purchases			1,016	43
21	Interest, Discount and Exchange	206	81		
22	Merchandise Purchases	47,072	49		
23	Sales			60,669	24
24	Rent	960	00		
25	Insurance	240	00		
26	Advertising	164	00		
		$87,568	69	$93,282	08
	In Synoptic	686	84		
	Cash	5,026	55		
	Bank	$93,282	08	$93,282	08

No attempt has been made to classify the Ledger accounts in the above problem.

The method of closing the Synoptic as illustrated is recommended because it forms an automatic check upon the accuracy of the entries and facilitates posting the column totals.

When there are both debit and credit totals to be posted to one account, do not insert a Ledger folio in the Synoptic until *both* totals have been posted.

When closing a Synoptic, the balance of Cash and Bank is extended into the General Ledger columns. (See illustration.) These amounts are not posted to accounts in the General Ledger, but are brought forward into the credit General Ledger column. In this way the debits and the credits on the first line of the Synoptic for a new period, are kept equal.

Working Sheets

When preparing Operating accounts and Balance Sheet at the end of a financial period, some accountants employ a device that ensures accuracy and relieves the accountant of the task of making Journal entries. After the financial statements have been prepared, instructions are given to the bookkeeper to make the necessary Journal entries. The device is a columnar statement so arranged that the figures in a Trial Balance may be extended into columns representing the operating accounts and closing balances. It is a means of separating Ledger accounts into the two main classes, viz. Real accounts and Nominal accounts. Other columns are sometimes added for the purpose of containing Journal entries necessary to record adjustments. The device is known as a Working Sheet, such name reflecting its purpose, i.e. to enable an accountant to keep his working figures together and properly classified. It is sometimes misnamed a Working Balance Sheet, but this name is misapplied, since the form is no more a Balance Sheet than it is a Profit and Loss account or a Trial Balance.

An accountant will often find that a Working Sheet greatly facilitates the preparation of the financial statements. When writing upon an examination, however, its use is not recommended, unless specifically required. In the absence of specially ruled paper, the preparation of a Working Sheet involves much labour. The printed Trial Balance has to be copied and the figures extended into the proper columns. Employment of the method explained in Lesson 14 eliminates this unnecessary work without sacrificing accuracy, and this latter method is, therefore, recommended for use when writing on an examination.

No rigid rules can be laid down governing the preparation of a Working Sheet. If all account classifications were ideal and uniform, the preparation of a Working Sheet would be simple and subject to definite rules. In actual practice, such ideal conditions seldom exist and a student should be prepared to cope with various situations that arise.

For purposes of illustration a fairly comprehensive list of accounts has been used and the figures are dealt with in accordance with the teaching of past lessons. An *ideal* Working Sheet might be prepared if accounts are provided thereon, so that each represents any one and *one only* of the following: Revenue, Expenditure, Asset, Liability, i.e. that no account includes both Revenue and Assets or Expenditures and Liabilities.

A Working Sheet, of itself, is of little value. It is used chiefly as a means to an end. The preparation of a Working Sheet may be justified in that it affords a convenient means of collecting and analysing data so that in the analysis no item can be overlooked. It not only arranges the items in a convenient form for journalizing the adjustments and closing entries, but also proves the equality of the closing balances.

The list of accounts in the illustrative problem does not purport to be complete. It does, however, illustrate the treatment accorded to most of the items usually affected, and careful study of this lesson should enable the student to deal with any item.

ILLUSTRATIVE PROBLEM

The Trial Balance of The Progressive Co., Limited, at December 31, 19—, is as follows—

	Dr.	*Cr.*
Cash in Office	$ 175.00	
Bank	3,042.60	
Accounts Receivable	11,631.42	
Bills Receivable	1,376.35	
Merchandise Inventory	2,547.20	
Buildings	10,000.00	
Furniture and Fixtures	3,550.25	
Accounts Payable		$ 5,600.70
Bills Payable		2,541.00
Mortgage Payable—7%		4,000.00
Capital Stock—Paid Up		10,000.00
Surplus		3.574.13
Purchases	20,842.86	
Freight and Duty on Purchases	2,453.50	
Sales		42,608.97
Salesmen's Salaries	6,582.00	
Advertising	1,500.00	
Insurance	1,500.00	
Office Salaries	3,796.00	
Bad Debts	480.86	
Cash Discount on Sales	257.90	
Cash Discount on Purchases		387.12
Bank Charges	164.00	
Interest on Mortgage	210.00	
Reserve for Bad Debts		498.02
Reserve for Depreciation, Buildings		200.00
Reserve for Depreciation, Furniture and Fixtures		700.00
	$70,109.94	$70,109.94

When preparing the financial statements, the following items are to be considered—

1. Merchandise Inventory, December 31, 19—, $3,972.85.
2. Accrued Salesmen's Salaries, $500.00.
3. Accrued Office Salaries, $340.00.
4. Accrued Mortgage Interest, $70.00
5. Insurance paid in advance, $400.00.
6. Depreciation on Buildings at 2½ per cent per annum on $10,000.00 to be provided.
7. Depreciation on Furniture and Fixtures at 8 per cent per annum on $3,550.25 to be provided.
8. Reserve for Bad Debts to be increased to 5 per cent of Accounts and Bills Receivable.
9. The period under review is that of one year.

From the above information write up a Working Sheet. (See page 19.)

The name or number of the client should be written at the top of each Working Sheet. The date at which the financial period ends should be inserted in the headings of Columns IV and V; and XI and XII. The duration of the period under review should be given in the heading of columns IX and X.

COLUMN I. The lines may be numbered consecutively for purposes of easy reference.

COLUMN II. Ledger Folios or account numbers should be inserted herein.

COLUMN III. Descriptive name of accounts.

COLUMNS IV AND V. Figures copied from a Trial Balance which should be proved correct.

COLUMNS VI AND VII. These columns are used for the purpose of containing adjusting entries made subsequent to the Trial Balance. These include such items as Accrued Charges and Deferred Charges, also the closing inventory and the transfer of the opening inventory of Merchandise to Trading account.

Care should be exercised, when making these entries, that debits and credits balance. For example, Salesmen's Salaries (Accrued), $500.00, is recorded by entering $500.00 in the Dr. column on Line No. 16, and $500.00 in the Cr. column on Line No. 29. The new inventory is recorded by debiting Merchandise Inventory (Line No. 5) and crediting Trading account (Line No. 34).

It will be noted that the totals of columns VI and VII agree and this forms a check upon the accuracy of the entries. The items on Lines 34 and 35 may be omitted. If this is done, the amount of $3,972.85, on line 5 of column VI, will be extended into column X, and $2,547.20, on the same line in column VII, will be extended into column IX. Similarly the amount of $633.23 on line 25, column VII, will be extended into column IX. If this method is employed, the check upon the equilibrium of the adjusting entries is forfeited, since the totals of columns VI and VII will not be in agreement.

COLUMN VIII. This column may be used to index the entries in columns VI and VII, to connect the corresponding debits and credits. As the bookkeeper makes the Journal entries, the index letters may be struck out as each entry is made.

COLUMNS IX TO XII INCLUSIVE. The account balances remaining after the adjustments have been made are extended into the last four columns according to whether such accounts are Nominal or Real. Column IX should contain all debit balances of nominal accounts, and column X all credit balances of nominal accounts.

Column XI should contain all debit balances of Real accounts, and column XII all credit balances of Real accounts.

Columns IX and X contain the figures that are to be incorporated in a Trading account and Profit and Loss account. These columns in conjunction with column III, represent a very crude form of combined Trading and Profit and Loss account. They are not acceptable in lieu of Trading account and Profit and Loss account, because they fail to reflect in an intelligible

Folio 38

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Line No.	General Ledger Dr.	General Ledger Cr.	Creditors' Ledger Dr.	Creditors' Ledger Cr.	Customer's Ledger Dr.	Customer's Ledger Cr.	L. F.	DATE 19—	NAME OF ACCOUNT
1	936 33	2,485 73	8,641 71	8,156 21	58,814 67	62,633 45	√	Nov. 30	Brought Forward
2							√	Dec. 2	Bills Payable & Int.
3						150 00		5	R. Tate
4							√	6	Cash Sales
5						230 00		8	B. Oakman
6			150 00					10	D. Coles
7			219 40					12	F. Leaf
8						20 00		15	B. Oakman
9	135 00						5	17	Office Furniture
10		135 00					17		Library Bureau, Ltd.
11							√	18	Bills Receivable
12	500 00						18	20	R. Carson
13							√	21	Bills Receivable
14							√	22	Salesmen's Salaries
15							√	,,	Office Salaries
16							√	,,	Rent
17			15 60					24	H. Phillips
18					304 00			27	G. Manor
19						65 00		28	P. Lewis
20					65 00			,,	P. Lewis
21		65 00					15		Reserve for Bad Debts
22							√	29	Advertising
23							√		Bank and Cash
24				3,658 71			√	31	Accounts Payable
25					4,016 35		√		Accounts Receivable
26	1,571 33	2,685 73							
27	9,026 71	11,814 92	9,026 71	11,814 92			7	31	Accounts Payable
28	63,200 02	63,098 45							Accounts Receivable
29	638 20				63,200 02	63,098 45	1		
							19		Discount on Sales
30		1,016 43					20		Discount on Purchase
31	213 81	7 00					21		Interest Disct. & Exs.
32	47,424 81	352 32					22		Merchandise Purchases
33		1,433 50					23		Sales (Cash)
34	1,664 25	60,899 99					23		Sales (Credit)
35	3,272 33	2,841 50					2		Bills Receivable
36	1,816 75	2,727 26					8		Trade Bills Payable
37	7,116 69						11		Salesmen's Salaries
38	3,854 81						12		Office Salaries
39	960 00						24		Rent
40	240 00						25		Insurance
41	164 00						26		Advertising
42	686 84						√		Cash Balance
43	5,026 55						√		Bank Balance
44	146,877 10	146,877 10						19—	
45		686 84					√	Jan. 1	Cash Balance
46		5,026 55					√		Bank Balance

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PARTICULARS	CASH			BANK				Line No.
	Dr.	Balance	Cr	Dr.	Balance	Cr.	Cheque No.	
.....	94,661 89	699 34	93,962 55	176,211 42	7,010 98	169,200 44	.....	1
Note No. 87	.....	.....	.....	.....	.....	1,035 00	122	2
Cash and Discount	142 00	.....	.....	.....	.....	.....	.....	3
	173 50	.....	.....	.....	.....	.....	.....	4
Note No. ——	.....	.....	.....	.....	.....	.....	.....	5
	.....	.....	.....	.....	.....	150 00	123	6
Note No. ——	.....	.....	.....	.....	.....	.....	.....	7
Credit Note No. ——	.....	.....	.....	.....	.....	.....	.....	8
Filing Cabinet	.....	.....	.....	.....	.....	.....	.....	9
Filing Cabinet	.....	.....	.....	.....	.....	.....	.....	10
Discounted Note No.—	.....	.....	.....	229 07	.....	.....	.....	11
Drawings	.....	.....	.....	.....	.....	500 00	124	12
Note of T. Plant	607 00	.....	.....	.....	.....	.....	.....	13
	.....	.....	.....	.....	.....	563 50	125	14
	.....	.....	.....	.....	.....	417 00	126	15
	.....	.....	.....	.....	.....	80 00	127	16
Credit Note	.....	.....	.....	.....	.....	.....	.....	17
Note No.—dishonoured	.....	.....	.....	.....	.....	304 00	.....	18
	65 00	.....	.....	.....	.....	.....	.....	19
Bad Debt Recovered	.....	.....	.....	.....	.....	.....	.....	20
	.....	.....	.....	.....	.....	.....	.....	21
	.....	.....	.....	.....	.....	164 00	128	22
Deposit	.....	.....	1,000 00	1,000 00	.....	.....	.....	23
Purchase Book, Folio—	.....	.....	.....	.....	.....	.....	.....	24
Sales Summary, Folio—	.....	.....	.....	.....	.....	.....	.....	25
	95,649 39	.....	94,962 55	177,440 49	.....	172,413 94	.....	26
Dr. and Cr.	.....	.....	.....	.....	.....	.....	.....	27
Dr. and Cr.	.....	.....	.....	.....	.....	.....	.....	28
Dr.	.....	.....	.....	.....	.....	.....	.....	29
Cr.	.....	.....	.....	.....	.....	.....	.....	30
Dr. and Cr.	.....	.....	.....	.....	.....	.....	.....	31
Dr. and Cr.	.....	.....	.....	.....	.....	.....	.....	32
Cr.	.....	.....	.....	.....	.....	.....	.....	33
Dr. and Cr.	.....	.....	.....	.....	.....	.....	.....	34
Dr. and Cr.	.....	.....	.....	.....	.....	.....	.....	35
Dr. and Cr.	.....	.....	.....	.....	.....	.....	.....	36
Dr.	.....	.....	.....	.....	.....	.....	.....	37
Dr.	.....	.....	.....	.....	.....	.....	.....	38
Dr.	.....	.....	.....	.....	.....	.....	.....	39
Dr.	.....	.....	.....	.....	.....	.....	.....	40
Dr.	.....	.....	.....	.....	.....	.....	.....	41
Carried down	.....	686 84	686 84	.....	.....	.....	.....	42
Carried down	.....	.....	.....	.....	5,026 55	5,026 55	.....	43
	95,649 39	.....	95,649 39	177,440 49	.....	177,440 49	.....	44
Brought down	686 84	686 84	.....	.....	.....	.....	.....	45
Brought down	.....	.....	.....	5,026 55	5,026 55	.....	.....	46

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Line No.	Discount on Sales		Discount on Purchases		Interest, Discount and Exchange				Merchandise Purchases				Cash Sales				Credit Sales				Bills R		
	Dr.		Cr.		Dr.		Cr.		Dr.		Cr.		Dr.		Cr.		Dr.		Cr.		Dr.		
1	630	20	1,016	43	177	88			43,766	10	336	72			1,260	00	1,644	25	56,883	64	3,042	33	
2					35	00																	
3	8	00																					
4															173	50							
5																					230	00	
6																							
7																							
8																	20	00					
9																							
10																							
11					93																		
12																							
13							7	00															
14																							
15																							
16																							
17											15	60											
18																							
19																							
20																							
21																							
22																							
23																							
24									3,658	71													
25																			4,016	35			
26																							
27																							
28																							
29	638	20																					
30			1016	43																			
31					213	81	7	00															
32									47,424	81	352	32											
33															1,433	50							
34																	1,664	25	60,899	99			
35																					3,272	33	
36																							
37																							
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Folio 38

ceivable Cr.	Trade Bills Payable Dr.	Trade Bills Payable Cr.	EXPENSE DISTRIBUTION: Salesmen's Salaries	Office Salaries	Rent	Insurance	Advertising	Line No
2,011 50	816 75	2,507 86	6,553 19	3,437 81	880 00	240 00		1
	1,000 00							2
								3
								4
								5
								6
		219 40						7
								8
								9
								10
230 00								11
								12
600 00								13
			563 50					14
				417 00				15
					80 00			16
								17
								18
								19
								20
								21
							164 00	22
								23
								24
								25
								26
								27
								28
								29
								30
								31
								32
								33
								34
2,841 50								35
	1,816 75	2,727 26						36
			7,116 69					37
				3,854 81				38
					960 00			39
						240 00		40
							164 00	41
								42
								43
								44
								45
								46

CLIENT: The Progressive Company Ltd. WO

I	II	III	IV	V
Line No.	Ledger Folio	Accounts	Trial Balance Date: Dec. 31, 19—	
			Dr.	*Cr.*
1		Cash in Office	175 00	
2		Bank	3,042 60	
3		Accounts Receivable	11,631 42	
4		Bills Receivable	1,376 35	
5		Merchandise Inventory	2,547 20	
6		Buildings	10,000 00	
7		Furniture and Fixtures	3,550 25	
8		Accounts Payable		5,60
9		Bills Payable		2,54
10		Mortgage Payable—7%		4,00
11		Capital Stock—Paid Up		10,00
12		Surplus		3,57
13		Purchases	20,842 86	
14		Freight and Duty on Purchases	2,453 50	
15		Sales		42,60
16		Salesmen's Salaries	6,582 00	
17		Advertising	1,500 00	
18		Insurance	1,500 00	
19		Office Salaries	3,796 00	
20		Bad Debts	480 86	
21		Cash Discount on Sales	257 90	
22		Cash Discount on Purchases		38
23		Bank Charges	164 00	
24		Interest on Mortgage	210 00	
25		Reserve for Bad Debts		49
26		Reserve for Depreciation, Buildings		20
27		Reserve for Depreciation, Furniture & Fixtures		70
28		Prepaid Insurance		
29		Salesmen's Salaries Accrued		
30		Office Salaries Accrued		
31		Accrued Interest on Mortgage		
32		Depreciation on Buildings		
33		Depreciation on Furniture and Fixtures		
34		Trading account (Merchandise Inventories)		
35		Profit and Loss account (Reserve for Bad Debts)		
36				
37				
38			70,109 94	70,10
39				
40		Net Profit		
41				
42				

RKING SHEET

	VI		VII		VIII	IX		X		XI		XII	
	Adjustments				Index	Trading and Profit and Loss Account Period: One year				Closing Balances Date: Dec. 31, 19—			
	Dr.		*Cr.*			*Dr.*		*Cr.*		*Dr.*		*Cr.*	
										175	00		
										3,042	60		
										11,631	42		
										1,376	35		
	3,972	85	2,547	20	a & b					3,972	85		
										10,000	00		
										3,550	25		
70												5,600	70
00												2,541	00
00												4,000	00
00												10,000	00
13												3,574	13
						20,842	86						
						2,453	50						
97								42,608	97				
	500	00			c	7,082	00						
						1,500	00						
			400	00	f	1,100	00						
	340	00			d	4,136	00						
			480	86	i								
						257	90						
12								387	12				
						164	00						
	70	00			e	280	00						
02	480	86	633	23	i & j							650	39
00			250	00	g							450	00
00			284	02	h							984	02
	400	00			f					400	00		
			500	00	c							500	00
			340	00	d							340	00
			70	00	e							70	00
	250	00			g	250	00						
	284	02			h	284	02						
	2,547	20	3,972	85	b & a	2,547	20	3,972	85				
	633	23			j	633	23						
94	9,478	16	9,478	16									
						5,438	23					5,438	23
						46,968	94	46,968	94	34,148	47	34,148	47

manner the operations of the business. In order to permit ready interpretation, the figures should be arranged as elsewhere instructed.

Columns XI and XII contain the closing balances to be considered when preparing a Balance Sheet. These columns are not acceptable in lieu of a Balance Sheet, because it is necessary to re-arrange the given figures in order that the reader may intelligently interpret the present financial position of the company.

It will be understood from the above that a Working Sheet is merely a contrivance used by accountants to facilitate the construction of Operating accounts and Balance Sheet, in the same manner that scaffolding may be employed by a sculptor in the construction of a statue.

When an examination question requires a Balance Sheet and Operating accounts, a Working Sheet alone will not meet the requirements of the question. A Working Sheet may, if desired, be included to support the Financial Statements submitted

Business Terms

ACCOUNT CURRENT. A detailed statement showing the condition of a current or running account at a certain date. This may include interest on account balances, if any.

AD VALOREM. A Latin phrase signifying "according to value." Ad valorem duty is a percentage on the value of the goods and not on their weight or quantity.

APPRAISE. To estimate the value of property or goods under the direction of competent authority.

AUTHORIZED ASSIGNOR. An insolvent assignor whose debts, provable under the Bankruptcy Act, exceed $500.00.

AUTHORIZED ASSIGNMENT. An assignment made as provided in the Bankruptcy Act to an authorized trustee, by an authorized assignor, of all his property for the general benefit of his creditors.

BANKRUPT. A debtor who has been adjudged bankrupt under the Bankruptcy Act, and against whom a receiving order has been made.

BEAR AND BULL. A bear is an operator in stocks who is "short" of stock, and wishes to buy at a lower rate, to do which he endeavours to depress the price of the stock of which he is "short." Against this we have operators who are holding stocks for advance, having stock to sell, it being said that they are "long" of stock. These holders endeavour to advance the price of the stock of which they are "long," and the term applied to them is 'Bulls."

BENEFICIARY. One who is in receipt of benefits, profits or advantages.

BILL OF LADING. An acknowledgment of the receipt of goods for transportation issued by a railroad, steamship company or other carrier.

BILL OF SALE. A transfer, in writing, of the ownership of personal property (such as livestock, household furniture, stock-in-trade, lumber,

etc.), given by the seller to the buyer. The bill of sale is resorted to particularly when the property, although sold, is not moved from the possession of the seller immediately, and thus, when the bill of sale is registered, the owner's (purchaser's) title is protected should the former owner attempt to sell again or should his property be taken over by creditors. The seller is also protected from fraud on the part of the buyer.

The bill of sale differs from a chattel mortgage in that the sale is outright and a return is not contemplated. (See Chattel Mortgage.)

Bona Fide. With good faith; i.e. without fraud or unfair dealing. A bona fide holder of a security generally means one who has no notice of any defect attached to it.

Bradstreet's. The name of an American firm that collects and distributes information relating to the financial position of commercial houses.

Bucket Shop. The name given to a firm of stock brokers, the members of which do not belong to a recognized stock exchange, and who conduct gambling transactions in stocks and securities.

Chattel Mortgage. A conditional sale of personal property which is to become void after a certain thing happens. Chiefly used as a security for the payment of money.

A chattel mortgage differs from a bill of sale (q.v.) in so far as it empowers the creditor or mortgagee to sell the goods if the money is not repaid with interest at the time appointed, or the obligation otherwise discharged.

There is no chattel mortgage in the Province of Quebec. (See Bill of Sale.)

Chose in Action. Personal property not in actual possession, but which the owner has the right of action to recover, such as a debt, etc.

Chose in Possession. A personal property in actual possession.

Closed Corporation. A corporation whose policy is to decline admission of outsiders as shareholders. To be legally closed would require a provision in the Charter restricting transfer of shares and that new issues be offered first to present shareholders.

C. O. D. Cash to be paid on delivery of goods.

C. and F. Cost and Freight. (See Loco.)

C. I. F. Cost, Insurance and Freight. (See Loco.)

Composition Deed. An agreement among creditors by which they agree to accept a payment of so much on the dollar from an insolvent debtor instead of the whole amount owing. The agreement of each creditor with the others is the consideration which binds the contract with the debtor.

Compromise. An amicable adjustment by mutual concessions.

Contributories. Those persons who are liable to contribute or add to the assets of a limited company in the event of it being wound up. Contributories may include—

(*a*) Holders of shares not fully paid.

(*b*) Persons who have transferred their holdings under circumstances which do not by law free them from liability in respect thereof.

(*c*) Directors or officers who, in an official capacity or otherwise, have contravened the provisions of the law and rendered themselves liable to contribute to the assets of the company.

Trade Debtors are not included in the term " contributories." Trade Debtors have received value in respect of their liability, contributories may not have received any value, hence the idea of " Contribution."

DEBENTURE. An instrument in the nature of a bond given as an acknowledgment of a debt, and providing for repayment out of some specified fund or source of income. This is a convenient form of investment. Debentures are sometimes secured only by the general credit of the issuer, and not by specifically pledged assets, as in the case of bonds. This feature makes the distinction between Debenture Bonds and Mortgage Bonds. Debentures, or debenture bonds, of Municipalities are secured by the tax power of the Municipality. The same is true of those issued by a Government.

DEBENTURE STOCK. This stock ranks with the ordinary debentures, and the holders are not answerable for any debts or liabilities of the company. Unlike ordinary debentures, however, debenture stock is registered at the head office of the company. In the register, the names and addresses of the several persons entitled to the debenture stock are recorded, with the respective amounts, and all transfers of debenture stock are similarly recorded. This register is accessible for inspection and perusal at all reasonable times, without fee, to any shareholder, mortgagee, bondholder, or debenture stockholder of the company. The company delivers to every holder of debenture stock a certificate stating the amount held by him, and the rate of interest payable thereon. The holders of debenture stock are not entitled to be present or to vote at any meeting of the company. They are simply in the position of mortgagees of the company, except that they have not the right to require repayment of the principal of the debenture stock. The company may, from time to time, purchase in the open market and redeem any portion or portions of the debenture stock, which the directors, by a resolution duly made, determine not to be required for the business of the company. Debenture stock stands in the same relation to debentures as Stock stands to shares, i.e. instead of being confined to definite denominations as $100.00, etc., it is a mass and the holder may, subject to regulations as to round amounts, transfer any portion of his holding, e.g. $5.00, etc. Debenture stock may be issued for a definite period.

DRAWBACK. When used with reference to customs business, refers to the refund of duty on locally manufactured goods, where an excise duty has been levied for their manufacture, or on imported goods, when such goods on which the duties have been levied are exported instead of being used within the country. Excise duty is levied on such articles as distilled spirits, fermented liquors, tobacco, etc., which are manufactured within the country for home consumption.

DUN'S. The name of an American firm that collects and distributes information relating to the financial position of commercial houses.

DURESS. Fear of personal injury or imprisonment. Restraint of personal liberty.

DUTIES, or customs levied on important goods are of two kinds, Ad Valorem and Specific. AD VALOREM DUTY is a certain per cent levied on the value of the goods. SPECIFIC DUTY is a tax that is assessed on quantities, and may be a certain number of cents per pound, per foot, per yard, per gallon, or in whatever other form the article or substance is. This is done without reference to the value of that on which the duty is levied.

EQUITY. Equity in a loan is the difference between the market value of the securities pledged as collateral and the amount borrowed.

Equity in a property is the surplus value which would remain if a property had been disposed of for the satisfaction of the liens thereon.

EQUITY OF REDEMPTION. The right which a mortgagor has to redeem his estate after the mortgage becomes due.

F. A. S. Free Alongside. (See Loco.)

FEE-SIMPLE. A freehold estate, absolutely free and entirely at the disposal of the owner. This is the highest estate in land known to the English Law.

FIXED CHARGES. Expenses accruing periodically in determined amounts which do not vary much with the volume of business done by a company in the particular period, but remain more or less fixed and unavoidable. The principal fixed charges are rent, salaries, taxes, insurance, and interest on mortgages, bonds and debentures.

F. O. B. Free on Board. (See Loco.)

FORECLOSURE. The legal process of cutting off the right or interest of the mortgagor in mortgaged premises.

HIRE PURCHASE. An arrangement by which it is agreed that the property in certain goods is to be transferred in consideration of a number of periodical payments, the property in the goods remaining with the vendor until all the payments have been made.

INDENTURE. A contract under seal. A written agreement between two or more parties. Several copies of such agreements were formerly written on one piece of parchment, and the parchment then cut irregularly (indented) so that the edges of the separated copies fitted exactly into each other, thus making fraud more difficult.

INSOLVENT. A debtor who is unable to pay his debts in full. This word is given a specific definition in the Winding Up Act and the Bankruptcy Act.

INTESTATE. Dying without having made a valid will.

IN TRANSITU. In course of transmission, on the way.

KITE. A colloquialism for accommodation paper. The dealing in fictitious or accommodation cheques and notes in order to raise money or keep up one's credit is called kiting or kite flying, and is a very dangerous form of financing, whether accomplished by means of cheques, drafts, or notes.

LEGAL RATE OF INTEREST. A rate established by law (Canada 5 per cent) to apply to all cases where interest is due, but no rate has been established by the contracting parties.

LETTER OF CREDIT. An order given by a banker to a correspondent authorizing the latter to pay a particular individual part or all of a certain sum of money. Owing to this vagueness, a letter of credit is not a negotiable instrument, and therefore payment can be legally demanded only by the person who is named in it.

There are two well-known forms of Letters of Credit—

1. Circular letters of credit, for use by travellers and tourists;

2. Commercial letters of credit for use in trade.

The purchaser of a circular letter of credit is usually requested to sign a form of agreement and to deposit cash or security for the amount of the credit. He receives in return (*a*) The letter of credit; (*b*) a letter of indication in which he is required to write his signature forthwith, for purposes of identification; (*c*) a list of the bank's correspondents who have undertaken to honour such credits.

The purchaser of a commercial letter of credit first signs a letter of application giving full particulars as to the description, quantities, etc., of the goods he is importing, and the terms under which the credit is to operate and the bank then gives the purchaser a letter of credit to send to the exporter abroad, sends a similar one to its correspondent named on the face of the credit, and retains a copy for its own files. On the back of the latter is an agreement as to repayment, etc., which the customer is required to sign. The exporter, on presentation of bills of lading, invoice and other satisfactory proofs that the terms of the credit have been complied with, obtains payment or acceptance of a draft for the amount through the correspondent, and thus realizes promptly on his goods. The correspondent retains the documents and forwards them to the bank which issued the credit and, on the arrival of the goods, the latter surrenders to the importing customer the bills of lading, etc.

LETTERS OF ADMINISTRATION. An instrument issued by a court having jurisdiction, granting power to settle the estate of a person dying without leaving a will.

LIEN. 1. A legal claim or hold on property.

The right possessed by a person who has actual or constructive possession of another's goods or property to retain them if the owner fails to meet his obligation.

2. A document or bond of any kind pledging such security.

LLOYDS. An association of English underwriters of marine insurance, which also collects and distributes maritime intelligence through its agencies throughout the world. It issues Lloyd's Register, giving the rating of ships, etc.

LOCO. A term used in selling goods, signifying that the goods are to be

delivered at the place of sale or the place where they are lying; i.e. actual local cost. There are five other terms used in this connection—

FREE ON BOARD. (f.o.b.) is loco plus packing and cartage charges to railway car or vessel.

COST AND FREIGHT. (c. & f.), f.o.b. plus freight.

COST, FREIGHT AND INSURANCE. (c.i.f.), cost and freight plus insurance.

FREE ALONGSIDE. (f.a.s.) To be delivered alongside of vessel, either on wharf or, if vessel is not docked, by means of a lighter.

FRANCO DOMICILE. A European term signifying that all costs incurred, until goods are delivered at destination, are to be borne by shipper.

L. S. An abbreviation of a Latin phrase meaning " place of the seal." It frequently takes the place of a seal or denotes where a seal should be affixed.

MANIFEST. A Custom House form on which is entered a list of the articles comprising a ship's cargo.

PARI PASSU. At par; on an equal footing.

POWER OF ATTORNEY. A written instrument authorizing an agent to act for his principal in the matters specified in the instrument, which is signed by the principal. If the agent is to act in signing documents under seal, the power of attorney must itself be under seal.

PRIMA FACIE. On the first view of the matter.

PRO FORMA. As a matter of form. A pro forma document is one drawn up as an approved model to be used as a guide.

QUASI. As if; resembling. Quasi corporations, for instance, are bodies like corporations, and yet are not strictly corporations in the legal sense.

ROYALTY. Amount paid to the owner of land for the privilege of extracting ore, coal, etc., or money paid to the holder of patent rights for the use of his patent.

R. S. C. Revised Statutes of Canada. R. S. O. Revised Statutes of Ontario. R. S. N.S. Revised Statutes of Nova Scotia, and so on.

STOPPAGE IN TRANSITU. The right of an unpaid vendor to stop goods in transit before they pass into the control of a purchaser who has become insolvent. The conditions necessary to this right being exercised are (1) the consignee must be insolvent, (2) the goods must not have been delivered to him or his order, (3) the goods must be unpaid for, (4) they must be in transit.

TARE. A deduction from the gross weight as an allowance for the weight of the container.

TRADE MARK. Is a distinctive mark adopted by a person or firm to distinguish their goods from those of others. This trade mark is registered, which prevents others from adopting the same and thus protects special lines from encroachment. When disposed of with the other assets of the business, it may have a value in much the same way as have patent rights or goodwill

ULTRA VIRES. Means beyond or outside the powers. If a company is organized to manufacture a certain line of goods, it would be ultra vires of the company to undertake contracts which are not permitted in its charter. In the same way it is ultra vires of a Province to pass legislation that affects the Dominion as a whole. Such acts would be disallowed.

WATERING STOCK, otherwise known as overcapitalization, means the increasing of the number of shares of an incorporated company without a corresponding increase in the value of the assets. This term is doubtless often misunderstood. There is a legitimate goodwill value attached to many concerns and, if the goodwill is purchased at a legitimate valuation, it is not watering stock if stock is issued in payment. The same is true of stock issued in payment of franchise or patent rights. The asset does not require to be tangible in order to have a legitimate value. It is when these or other assets are shown at an inflated valuation that we have the process of watering stock. The point to be considered then, is not what the stock is given for, merely, but the relationship that exists between the real value of the asset, whether it be property or services, and the value at which it is taken as a basis for the issue of stock.

WITHOUT PREJUDICE. Without detriment to any right or condition that previously existed. This expression is usually made use of in any letter offering to compromise a claim or litigation, thus reserving all rights, expressed or implied, to the writer in case the offer is rejected; in other words, his position remains exactly as it was before the letter was written.

WORKING CAPITAL. The amount left for working purposes after the fixed assets have been acquired. In an established business, the excess of Current Assets over Current Liabilities constitutes Working Capital. The term Working Capital is sometimes applied also to stock donated by shareholders of a limited company.

Accounting Procedure for Special Items

1. BAD DEBTS RECOVERED

These should be recorded in such a way that the customers are given credit for any amounts paid on account of debts that have previously been written off as bad. This is desirable since Ledger accounts of customers may be used to some degree as an index of the credit to be extended in each case. Other things being equal, an account that reflects the fact that a debtor ultimately made settlement will be more favourably regarded than one that does not show any settlement on the part of the debtor.

The above may be accomplished by posting the Cash Book entry directly to the customer's account. A Journal entry will then be necessary, recharging the customer with the amount. The account that should receive the corresponding credit entry will vary according to circumstances.

If the customer's account has been written off to Bad Debts account during the current period and the latter account has not been closed, then Bad Debts account should be credited with the amount recovered.

If, however, the account was written off as bad in some past period the treatment is different. It may be desirable to keep a Bad Debts Recovered account and credit this with the amounts received. Such an account will be a nominal account, remaining open during each period, and at the end thereof being closed into Reserve for Bad Debts account, or Surplus account. Strictly speaking, Surplus account should ultimately be credited with such amounts, since the charge to Profit and Loss account in respect of Allowance for Bad Debts in some past periods has been in excess of actual losses and, consequently, the net profit which was transferred to Surplus was understated. If the amount of Bad Debts Recovered is inconsiderable it may be permissible to credit Reserve for Bad Debts account with same.

2. Foreign Exchange as Affecting Accounts Payable and Receivable

Methods of recording transactions with persons or firms outside Canada are described in Lesson 16.

It is here pointed out that, if Method No. 1 is employed, the aggregate of balances due to foreign creditors, or the aggregate of balances due from foreign debtors, will be shown in the Trial Balance as reckoned at the legal par of exchange. This amount, however, may not reflect the true amount due on account of the prevailing rate of exchange being above or below par. In order that true values may appear in a Balance Sheet, the figures should be adjusted in this respect. This may be done by setting up adjustment accounts for Foreign Exchange.

In case of debtors, if the prevailing rate is above par, the Adjustment account is *debited* and Foreign Exchange credited with the difference between the prevailing rate and par. If the prevailing rate is below par, the entries will be the reverse.

In the Balance Sheet the balance of the "Customers' Adjustment account for Foreign Exchange" should be added to (if a debit balance) or deducted from (if a credit balance) the amount of Accounts Receivable.

In the case of creditors, if the prevailing rate is above par, the Adjustment account is *credited* and Foreign Exchange account debited with the difference. If below par the entries will be the reverse.

In the Balance Sheet the balance of the "Creditors' Adjustment account for Foreign Exchange" should be deducted from (if a debit balance) or added to (if a credit balance) the amount of Accounts Payable.

If there are both foreign creditors and debtors, a separate adjustment account for each will be required.

Any differences between the amounts actually received or paid in settlement of such accounts and the balances of the personal accounts as brought forward (which are calculated at par) will be closed into the proper adjustment account.

It may also be necessary to apply the above procedure to Foreign Bills Payable outstanding and Foreign Bills Receivable on hand (if any). In this case, however, the amount of the adjustment will be the amount of the

difference between the rate at which the Bills were recorded when issued or received, and the rate at time of closing.

3. Prepaid Freight Chargeable to Customers

Merchandise is frequently sold F.O.B. a specified place. This means that any transportation charges from that place to the purchaser's factory, warehouse or store, must be borne by the purchaser. Sometimes these charges are prepaid by the seller. In the books of the seller, such charges should be debited to the purchaser's accounts. It is important, however, that these charges be not confused with sales.

The Freight may be calculated at the time of preparing the invoice and the charge entered on the invoice. When this is done, freight items should be separated from merchandise when preparing a Sales Summary or writing up a Sales Book. The total of Freight columns should be credited to a Freight Out account and when such freight is paid the amount should be debited to the Freight Out account. Any balances in the latter account will then represent a liability to the transportation companies.

In the event of Freight Out not being separated from Sales of Merchandise at the time of record, then the amount debited to Freight Out account from the Cash Book should be closed into Sales account. An adjustment may be necessary at balancing time, to bring in any amount owing to transportation companies. In a Trading account the figures representing actual Sales of Merchandise may be shown, or the gross amount of Merchandise Sales plus Freight Charges, and the latter then deducted, the amount of net Merchandise Sales being extended.

Unless it is known that Freight Charges have been credited to Sales, Freight Out should *not* be deducted from Sales in a Trading account.

4. Cash Received from Customers on Account of Bills Receivable which have been Discounted

Sometimes cash is received from customers on account of Promissory Notes or Acceptances which they have given the business, and which have been discounted at a bank in the meantime.

Method 1. The amount received may be entered as a cash receipt in the Accounts Receivable column of the Cash Book and posted to the credit of the Customer's account. A memorandum should be made in the account explaining that the amount is on account of Note No. ——. At maturity the bank may apply to the customer for payment and collect only the balance outstanding, in which case the bank will charge the business with the unpaid balance, that is, the amount paid by the customer directly to the business. An entry will then be made in the books, crediting the bank and charging the customer's account. This will clear the latter account.

Method 2. The amount received from the customer may be taken to the bank and endorsed on the note or acceptance. No entry is then required in the books of the discounter unless a Bills Under Discount account is kept. If such account is kept, the required entry is

Bills under Discount *Dr.*
To Bills Receivable *Cr.*

If Method No. 1 is used, any credit balances thus created in personal accounts, which remain outstanding at the end of a financial period, should be deducted from the Bank balance, because the bank will ultimately charge our account with these amounts.

5. Withdrawals by Owners

Unless it is definitely stated that amounts paid by a business to its owners are in lieu of salary, these amounts should *not* be charged to Profit and Loss.

Amounts withdrawn by owners should be charged to the accounts of the owners. A charge in respect of salary of owners is recorded by debiting a special Salary account and crediting accounts of the owners affected. Such transactions serve to bring out the distinction between Receipts and Payments, on the one hand, and Income and Expenditure on the other hand. The amount of cash withdrawn by an owner is purely a payment. It operates to reduce the amount of the liability of the business to its owners (Net Worth). Thus it is shown that such transactions affect assets and net worth only. Cash (an asset) is lessened by the amount paid and Net Worth is likewise lessened by an equal amount. Such payments do not reflect expenditures, since salaries of owners may be greater than or less than the amount of cash paid. There is no accounting connection between payments and expenditures or receipts and income.

Refer to Lesson 11 for the manner of recording Partners' Salaries.

6. Sales to Creditors and Purchases from Customers

If a sale to a creditor is recorded in the Sales Book and posted to an account in the Creditors' Ledger an adjusting entry will be required, debiting Accounts Payable and crediting Accounts Receivable.

Similarly, a purchase from a customer recorded in the Purchase Book and posted to an account in the Customers' Ledger will require an adjusting entry debiting Accounts Payable and crediting Accounts Receivable.

It may be pointed out that if a Synoptic is employed, these adjustments may not be necessary. Sales may be entered in the Sales Cr. column, the amount sold to customers in the Accounts Receivable Dr. column and the amount sold to creditors in the Accounts Payable Dr. column.

Purchases may be entered in a similar manner, i.e. debit Purchases and credit Accounts Payable and Accounts Receivable respectively.

If a sale to a creditor is recorded in the Sales Book and posted to a personal account in the Customers' Ledger, it may be desirable to combine the two personal accounts into one account in the Creditors' Ledger.

Example. Goods valued $500.00 are sold to J. Jones, who is a creditor of the business.

When a two-column Journal is used, the entry necessary for the adjustment is—

Accounts Payable—J. Jones	$^{10}/_{8}$		500	00		
To Accounts Receivable—J. Jones	$^{26}/_{15}$				500	00

The entry to adjust a purchase from a customer, is—

Accounts Payable—W. Brown	10/19	600	00		
To Accounts Receivable—W. Brown	26/31			600	00

A diagonal line in the folio column indicates the necessity of a double posting. The absence of a folio either above or below the diagonal line indicates that the entry has been posted to one Ledger only.

Thus, in the above example the amount of $500.00 will be posted to the debit of Accounts Payable account in the General Ledger and to the debit of J. Jones in the Accounts Payable (or Creditors') Ledger. The same amount will be posted to the credit of Accounts Receivable account in the General Ledger and to the credit of J. Jones in the Accounts Receivable (or Customers') Ledger.

7. Discount and Premium on Bonds

As explained in Lesson 13, pages 13 and 14, a discount on Bonds reflects that the interest rate mentioned in the Bonds is lower than the current rate of interest upon securities of a similar nature. In order to make the Bonds saleable one of two things may be done, i.e. either the promised rate of interest must be raised or a deduction made in the price. Changing the stipulated rate would involve reprinting the Bonds for each sale, since interest rates vary from day to day. This is impracticable, and the second method is therefore employed. From the foregoing it will be gathered that selling Bonds at less than par value is simply another method of paying a higher rate of interest. For example, if $100,000.00 worth of 6 per cent Bonds are issued, the annual interest amounts to $6,000.00. If, however, the Bonds are sold at 96, the borrowers have to pay $6,000.00 at the end of the first year for the use of $96,000.00, which works out at a rate considerably higher than 6 per cent.

In view of this, Discount on Bonds should be written off into Interest on Bonds account so that the true interest may ultimately find its way into Profit and Loss.

If $100,000.00 worth of 8 per cent 20-year Bonds are sold for $94,000.00, the discount of $6,000.00 may be amortised over the life of the Bonds by writing off one-twentieth or $300.00 yearly to Bond Interest account. The entry at each interest date will be—

Interest on Bonds	$8,300.00	
To Discount on Bonds		$ 300.00
,, Cash		8,000.00

If the above Bonds were sold for $106,000.00, the entry at each interest date will be—

Interest on Bonds	$7,700.00	
Premium on Bonds	300.00	
To Cash		$8,000.00

The diminishing balance of Bond Discount account may be shown in a Balance Sheet, on the Asset side as representing prepaid interest on the Bonds, or it may be deducted from the par value of the Bonds and the

difference extended as a liability. A balance of a Bond Premium account may be shown as an addition to the liability to Bondholders. The above will give approximately the true interest charge each year. If the exact rate the loan costs is known, and so the return on purchaser's investment, a closer calculation may be made, but at this stage of the work the above may be accepted as sufficient.

8. Dividends

A dividend is calculated upon the amount of Paid-up Capital, exclusive of any Surplus. Thus, a company having Paid-up Capital of $100,000.00 and a Surplus of $50,000.00, declares a dividend of 6 per cent. The amount of the dividend will be 6 per cent of $100,000.00 or $6,000.00.

Dividends should not be charged to Current Profit and Loss account, but to net profits, i.e. Profit and Loss Appropriation.

EXAMINATION QUESTIONS

Lesson 25

1. The following balances appear in the General Ledger and Synoptic of D. Sanderson as at November 30, 1940:

In General Ledger

L.F.		*Dr.*	*Cr.*
1.	Accounts Receivable Controlling Account	$ 7,643.20	
2.	Merchandise Inventory (Dec. 31, 1939)	26,310.80	
3.	Furniture and Fixtures	1,256.00	
4.	Bills Receivable	3,042.00	
5.	Purchases	98,321.90	
6.	Freight In	1,216.75	
7.	Salesmen's Salaries	4,327.16	
8.	Office Salaries	3,500.00	
9.	Rent	770.00	
10.	Bank Charges	199.10	
11.	Insurance	240.00	
12.	Light and Heat	364.90	
13.	Discount on Sales	1,655.24	
14.	Sales Returns and Allowances	177.15	
15.	D. Sanderson, Drawings	1,000.00	
16.	Accounts Payable Controlling Account		$ 2,600.84
17.	Bills Payable		1,500.42
18.	Sales		133,641.17
19.	Bank Loan		2,000.00
20.	Purchases Returns		94.63
21.	Discount on Purchases		2,164.23
22.	D. Sanderson, Capital		10,303.06
		$150,024.20	$152,304.35

In Synoptic

Cash in Office	316.90	
Cash in Bank	1,963.25	
	$152,304.35	$152,304.35

The Synoptic is closed at the end of each month and column totals posted to General Ledger. Balances of the columns for Cash and Bank are carried in the Synoptic and no Ledger accounts are kept for these two items.

(*a*) Open General Ledger accounts as at December 1, 1940.

(*b*) Enter undermentioned transactions in Synoptic.

(*c*) Close the Synoptic and post items to General Ledger accounts.

Prepare Synoptic for opening on January 1, 1941.

(*d*) Write up a Trial Balance of General Ledger as at December 31, 1940. (Including Cash and Bank.)

Note. Ruled paper is enclosed for your solution.

No Sales Book or Purchase Book is kept.

1940.

Dec. 2. Credit Sales: W. H. Hart $110.50
F. A. Lloyd 73.20
E. Gordon 244.60

,, 3. Cash Received from Customers—

M. Atkins	$24.60		
E. Price	133.00	Discount	$7.00
G. Healey	206.00	Discount	4.00

,, 4. Deposited in Bank, $600.00.

,, 6. Issued cheques to Creditors—

A. Shields	$334.00	Disc. $6.00	Total $340.00
W. Miller	$406.15	Disc. $4.75	Total $410.90

,, 8. Issued credit note to W. H. Hart $20.00 for goods returned.

,, 10. Bought Office Chair $16.00, paid for same by cheque.

,, 12. Discounted Customer's Notes. Face $764.70.
Discount $9.10, Proceeds $755.60.

,, 14. Credit Purchases—

W. Miller $105.00
G. Simmons 264.00

,, 16. Accepted draft in favour of G. Simmons for $264.00.

,, 19. Paid by Cheque—

Freight account (on Merchandise bought), $17.40.
Rent, $70.00.
Salesmen's Salaries, $166.00.
Office Salaries, $98.00.

,, 21. Bought Office Desk from Office Specialty Co., on credit, $85.00.

,, 22. Gave T. Moles cheque in settlement of my acceptance due to-day, $300.00.

,, 24. Cash Sales, $416.20.
Deposited in bank $300.00.

,, 27. Purchased from F. A. Lloyd (a customer), Merchandise on account, $175.00.

,, 30. Gave promissory note to W. Benton in settlement of account, $215.00.

2. A company sells $100,000.00 par value 10-year, 7 per cent, 1st Mortgage Bonds. It realizes $95,000.00 from the sale. How would you deal with the amount of discount—

(*a*) In the books of account?

(*b*) On the financial statement?

3. From the following information prepare a Working Sheet.

The account balances of the firm of Lewis and Graham as at June 30, 1940, are as follows—

Cash, $276.00; Bank, $5,410.80; Accounts Receivable, $16,900.82; Bills Receivable, $2,621.00; Merchandise, $17,643.08; Store Fixtures, $5,190.00; Office Furniture, $1,203.60; Accounts Payable, $9,063.45; Bank Loan, $1,000.00; Bills Payable, $2,644.90; D. Lewis, Capital, $15,000.00; R Graham, Capital, $10,000.00; D. Lewis, Drawings, $1,200.00 (Dr.); R. Graham, Drawings, $2,000.00 (Dr.); Merchandise Purchases, $88,863.20; Freight and Duty on Purchases, $4,712.34; Sales, $124,532.54; Bad Debts, $216.38; Discounts on Purchases, $476.02; Discount on Sales, $832.16; Bank Charges, $334.13; Wages and Salaries, $9,400.50; Insurance, $800.00; Advertising, $2,764.00; Stationery and Postage, $1,963.22; Rent, $1,500.00; Reserve for Bad Debts, $612.10; Reserve for Depreciation, Store Fixtures, $365.80; Reserve for Depreciation, Office Furniture, $136.42.

Items to be considered subsequent to the Trial Balance—

Inventory Merchandise, June 30, 1940, $19,543.19.

Accrued Wages and Salaries, $314.15.

Accrued Rent, $300.00.

Prepaid Insurance, $180.00.

Accrued Interest on Bank Loan, $17.50.

Reserve for Bad Debts to be increased to 5 per cent of Accounts and Bills Receivable.

Reserve for Depreciation on Store Fixtures and Office Furniture, 10 per cent per annum of diminishing balances.

D. Lewis to be credited with $3,000.00 Salary and R. Graham with $2,000.00 Salary. Interest on Capital at 5 per cent per annum. Lewis' share of profits or losses is $\frac{3}{5}$ and Graham's $\frac{2}{5}$. Books are closed on December 31 and June 30 of each year.

Show the amount of Net Profit. The resourcefulness displayed in the arrangement of the items affecting the accounts of the partners will be considered when grading your solution.

4. Show, by means of Journal entries, how you would record the undermentioned transactions. In each case state the book of original entry in which you would make the record. Assume that Controlling accounts are kept for Accounts Receivable and Accounts Payable.

(*a*) March 6, 1940. Received cash $65.00 from B. Slow in settlement of his account which was written off as uncollectible in 1939.

(*b*) April 4, 1940. Our cheque for $190.00 issued on March 28 in favour of G. Blackburn is returned. A letter accompanies same explaining that the discount of $10.00 which was deducted from the account when the cheque was issued cannot be allowed. A new cheque for $200.00 is remitted in settlement.

(*c*) June 10, 1940. Received from C. Doyle $300.00 on account of his promissory note. This note is under discount at our Bank.

(*d*) June 30, 1940. C. Patterson, a partner in the firm of Patterson & Company, draws a cheque on the firm in his own favour for $2,000.00 on account of salary and other credits. How would you deal with this item when making the closing entries at balancing time?

5. From the particulars given in the Working Sheet illustrated on pages 19 and 20, write up—

   (*a*) Trading account.

   (*b*) Profit and Loss account.

   (*c*) Balance Sheet.

Consider that your solution for this question is to be used as a specimen of your work. Make it reflect your best effort as to form, arrangement appearance, and every other particular.

Note. This is the last lesson in the General Course.

INDEX

Lessons 16—25

	LESSON	PAGE
AMALGAMATION of Companies	23	1–8
Application and Allotment Book	24	3, 5
BAD Debts Recovered	25	27
Bank Journal	20	8
Bills Receivable Discounted—Cash Received on Account of	25	29
Branch Accounts	17	1–11
Business Terms	16	7–11
Business Terms	25	21–27
CAPITAL—		
Increase and Reduction	23	8–9
Shares without Par Value	23	11–13
Cash Books, Columnar—Extended	20	1–8
Cash Receipts and Deposits Book	20	7
Consignment Accounts	22	1
Controlling Accounts	21	12
Correction of Errors	16	5
DISCOUNT on Bonds	25	31
Dividend Book	24	16–17
Dividends—How Calculated	25	32
FOREIGN Currency and Exchange	16	1–5
Foreign Currency and Exchange	25	28
Forfeiture of Shares	23	10–11
Freight—Prepaid and Chargeable to Customers	25	29
GOODS Shipped on Consignment	22	1–10
INSTALMENT Book	24	6–7
Instalment Receipt Book	24	6, 8
JOINT-STOCK Companies—Books and Statements—Law Governing Books of Record	24	1
Books used	24	2
LOCATION of Errors	16	6
MEMORANDUM of Agreement and Stock Book	24	3, 4
No Par Value Stock	23	11–13
PARTNERSHIP Adjustments—Admitting a Partner	18	1–7
Dissolution	18	7–11
Loans to Partners	18	11
Percentage Statement	16	11
Premium on Bonds	25	31
Purchase Book Extended	21	1
Purchases from Creditors	25	30
REGISTER of Directors	24	16, 17
SALES Journal	21	8, 12
Sales to Creditors	25	30
Self-balancing Ledgers	21	12
Share Ledger	24	12–16
Shipments on Consignment	22	1–10
Single Entry—Disadvantages	19	3
Arriving at Present Worth	19	4
Arriving at Net Profit or Loss	19	5
Arriving at Net Profit or Loss in a Partnership	19	8
Changing to Double Entry	19	9
Changing to Double Entry During a Period	19	10
Stock—No Par Value	23	11–13
Stock Certificate Book	24	6, 9
Synoptic—	25	1
Advantages	25	3
Disadvantages	25	3
Illustrative Problem	25	3–11
TRANSFER Book	24	6, 10
Transfer Register	24	10, 11
Treasury Stock	23	9–10
VOUCHER System	21	6
WITHDRAWALS by Owners	25	30
Working Sheets	25	12–21

SHAW SCHOOLS LIMITED, TORONTO, CANADA

Form A

Name ..... Class Letter ..... Number ..... Address .....

BOOKKEEPING AND ACCOUNTING Lesson 25 Examination Question 1

Client .....

THE SYNOPTIC

LINE NO.	General Ledger		Accounts Payable Ledger		Accounts Receivable Ledger		LEDGER FOLIO	DATE	NAME OF ACCOUNT	PARTICULARS	CASH			BANK			CHEQUE NO.	LINE NO.
	DR.	CR.	DR.	CR.	DR.	CR.					DR.	BALANCE	CR.	DR.	BALANCE	CR.		